

**THE BANCA NAZIONALE DEL LAVORO (BNL)
SCANDAL AND THE DEPARTMENT OF
AGRICULTURE'S COMMODITY CREDIT
CORPORATION (CCC) PROGRAM FOR IRAQ—
PART 1**

**HEARING
BEFORE THE
COMMITTEE ON BANKING, FINANCE AND
URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED SECOND CONGRESS
SECOND SESSION**

MAY 21, 1992

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THE BANCA NAZIONALE DEL LAVORO (BNL) SCANDAL AND THE DEPARTMENT OF AGRICULTURE'S COMMODITY CREDIT CORPORATION (CCC) PROGRAM FOR IRAQ—PART 1

THURSDAY, MAY 21, 1992

**HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.**

The committee met, pursuant to notice, at 9:30 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the committee] presiding.

Present: Chairman Gonzalez, Representatives Vento, Barnard, Schumer, Frank, Torres, Kennedy, Luken, Moran, Slattery, Wylie, Leach, McCollum, Roukema, Bereuter, Roth, McCandless, Riggs, Nussle, and Johnson.

Also present: Representative Lantos.

The CHAIRMAN. The committee will please come to order.

We were awaiting the arrival of Secretary Robson. We have listed him first, and we have also had a request conveyed to us from the administration asking if we would list him first, which we have. Also, it will give us a chance to get some preliminaries out of the way.

I would like to report a letter that was just hand delivered to me in my office just 10 minutes ago, and it is from the White House Liaison Assistant to the President on Legislative Matters, and it will explain the two chairs there, where we have the identification tabs for Mr. Danzansky and Mr. Haass.

This letter says: "This responds to your letter of May 1, to Mr. Richard Haass, Special Assistant to the President for National Security Affairs, as well as your most recent letter of May 15 to Stephen Danzansky, former Deputy Assistant to the President for Cabinet Affairs. As I indicated to you in my letter of May 4, it is a longstanding practice of the executive branch to decline requests for testimony by any members of the President's personal staff. For that reason, I must decline your request for personal testimony by Dr. Haass and your renewed request for testimony by Mr. Danzansky.

"However, given the unusual circumstances presented here, the administration is prepared to work with you to develop an alternative mutually acceptable mechanism by which these officials can be made available to members of the subcommittee." Actually this should be the full committee. "We believe the administration acted

reasonably and properly during the period prior to the Persian Gulf conflict. We are anxious to ensure that the subcommittee has an accurate picture of Administration policy and actions." Signed, Nicholas E. Calio, the Assistant to the President for Legislative Affairs.

And I ask leave to place this in the record at this point, and say that the reason for these two chairs is that up until last night, there had been communication between the staffs and the White House liaison, as well as the White House staff, and there was some intimation that they might. But it wasn't until this morning that we definitely were notified that they would not be present and then the letter was hand delivered.

This is the fourth hearing the Banking Committee has conducted on BNL. I want to remind my colleagues, as well as others, that we have not invoked rule 10 or 11, in which the full investigatory panoply of power under those rules and naturally with the constitutional limitations we have always observed, which would entail the necessity of swearing in the witnesses, in which case we haven't done.

We have extended invitations by letter. We have had the committee unanimously vote close to 50 document subpoenas. We are proceeding and this is the fourth hearing related to the Banking Committee's investigation, our oversight of the Atlanta branch of the Banca Nazionale del Lavoro. The committee's investigation entails the \$4 billion in loans the Atlanta branch of BNL provided to Iraq through letters of credit beginning in 1985 through August 1989.

The scope of the committees's investigation includes Iraq's and BNL's participation in Export-Import Bank and Commodity Credit Corporation Program, as well as the BNL role in funding Iraq's military technology procurement network.

Now, there is some confusion regarding this investigation. We are not the only committee investigating this scandal. There are two other committees, principally the Agriculture Subcommittee, chaired by Mr. Rose, and the Foreign Affairs Subcommittee, chaired by Mr. Gejdenson. These two subcommittees have been on this case for some time now. Also, I want to point out that this is not a solitary, single individual effort, and I think today's hearings will reveal that interest in this matter is of concern to me which dates back to the beginning.

It was personal. I was the one that asked the staff back in 1989, to follow up on this question of the \$4 billion that was funneled through the Atlanta branch of BNL, which was reported in the *Wall Street Journal* and I was curious after reading this article. It wasn't until 1990, on October 16, that we held our first hearing.

We succeeded partially in our legislative quest by bringing the reforms in the fundamental 1978 International Banking Act last year in the Banking Act that we approved.

So far, the committees' investigation has revealed that the system of regulating and supervising branches and agencies of foreign banks was, is, and continues to be wholly inadequate from the standpoint of the protection of the national interest and the safety and soundness of our banking system, and principally the ability

for our monetary setting body, the Federal Reserve, to be able to do so in a comprehensive and manageable way.

The legislation that I introduced closed loopholes, to a certain extent, in the banking laws, and it also restructured the system of supervision governing foreign banks. The committee's investigation has also revealed painful scandalous details about the flawed United States policy toward Iraq, including the administration's misleading statements to the Congress. And that statement is made in light of other committees' experiences from Government Operations, Foreign Affairs, and the Agriculture Committees, not necessarily or exclusively the Banking Committee.

In the coming months, the BNL investigation will provide new details of the United States role in arming Iraq, including information about BNL's role in funding the Iraqi military technology procurement network, and the role many United States companies played in what ended up arming Iraq.

In addition, the investigation will explore the President Reagan and President Bush's administrations role in facilitating the arming of Iraq.

As a result of this investigative effort, I recently introduced legislation that will force the United States to vote no on IMF and multilateral development bank loans to countries that do not adhere to the nonproliferation regimes that thwart the weapons of mass destruction. It also tightens regulations governing the activities of foreign banks operating in the United States.

As today's hearings will show, President Bush's administration policy toward Iraq has been seriously flawed. The administration hoped to moderate Iraq's behavior by providing Saddam Hussein with billions of dollars in financial assistance and United States technology.

The important thing to focus on at today's hearing is the government's controls that were trampled on in order to further the administration's policy toward Saddam Hussein.

Also, today's hearings will show that the White House and State Department disregarded irrefutable evidence of massive Iraqi atrocities. At the same time it was pressuring the National Advisory Council to approve the \$1 billion CCC Program for Iraq.

Now, those atrocities, I need to enumerate them here because they have been clouded over. Just 1 year before this decision to approve the billion dollar CCC Program, Iraq used poison gas to eradicate thousands of its own Kurdish citizens and horrified the whole world.

Iraq was not considered creditworthy. Iraq repaid its debts selectively, based solely on its ability to obtain larger and larger allocations of credit. Iraq provided financial support and a safe harbor to terrorist groups. Over 50 percent of Iraq's gross national product was dedicated to rebuilding Saddam's military machine.

Iraq had one of the world's most repressive regimes. Iraq engaged in monumental human rights violations, including torturing children. The BNL scandal implicated the highest levels of the Iraq Government, including Saddam Hussein's son-in-law, Hussein Kamil, Amir Hammuda Sadi, the head of Iraq's Ballistic Missile Program, and Safa-al Abbabi, the genius behind Iraq's secret military procurement network.

Iraq was engaged in the program to smuggle United States technology to build nuclear, chemical, biological weapons, and ballistic missiles. It was in this context that the decision was made to put the taxpayers at risk for the \$1 billion CCC Program for Iraq. It was in this context that the administration wanted to mollify Saddam Hussein. It is important to bring out the details of the National Advisory Council process in the context of the Iraqi policy because the same mistakes are being made today with countries such as China and Iran, Syria, Jordan, and the New Confederation of Independent States.

Syria and Iran support terrorism, and yet export licensing restrictions have been relaxed. China is a chronic human rights abuser and possesses nuclear missiles that can hit the United States, yet it is about to obtain most-favored-nation status.

The new CIS States are not creditworthy, yet they receive ample CCC and Export-Import Bank credits.

Jordan is a sieve as far as the U.N. sanctions are concerned, yet the administration is pushing for tens of millions of dollars in aid to the Iraqi sympathizers in Amman.

The committee is disappointed that Mr. Stephen Danzansky of the White House and Mr. Richard Haass of the National Security Council have failed to appear, but as explained in the letter, we intend to work as far as it is feasible, and within the fundamental rights of Congress to know. This is one of the fundamental constitutional prerogatives upheld by Supreme Court decision after Supreme Court decision.

These individuals are critically important in understanding the White House's role and the NSC role in the decision to approve the program. The committee has a legitimate right to receive testimony from the White House and NSC, as well as documents.

We have asked for these documents, and we have done so in letters and in writing, and if necessary, we will, as we have in the past, asked the committee to issue subpoenas for documents or certain individuals.

So I am looking forward to testimony today. I want to express my gratitude to the witnesses that did accept our invitation, and thank you.

I regret to say that we didn't get your testimony, with the exception of Secretary Robson's, until quite recently this morning.

So with that, I will recognize Mr. Wylie.

Mr. WYLIE. Thank you very much, Mr. Chairman.

This hearing, this morning, raises some interesting questions about the United States policy toward Iraq before its invasion of Kuwait. Mr. Chairman, you have suggested in hindsight that the United States policy of providing agriculture and financial credits to Iraq was wrong, and even motivated by selfish interests on the part of the President's advisors, and I respectfully do not agree with that assessment.

I think the question we ought to ask is whether the administration's policy was reasonable under the circumstances at the time, and perhaps we need to review the history of this region in the last decade.

In 1980, Iran was holding American hostages, the Russians had invaded Afghanistan, Iraq invaded Iran. Under President Carter,

the United States did not condemn Iraq's invasion. In fact, in his State of the Union Address in 1980, President Carter unveiled the Carter doctrine which stated that the United States would use force if necessary to protect the free shipping lanes in the Persian Gulf.

President Reagan continued this policy in the 1980's by escorting Kuwaiti tankers through the gulf. During the Bush Presidency, after the Iran/Iraq war, many agreed that it was reasonable, in order to prevent Iran from dominating the Persian Gulf seaways, to improve relations with Iraq, Iran's chief rival. And we should not forget that forces loyal to Iran and Syria were responsible for the United States hostages held in Lebanon, that Syria and Iran were responsible for the bombing of the Marine barracks in Lebanon in 1983.

Who was the chief rival to both Syria and Iran at the time? Of course, the answer is Iraq.

Let us be reminded also that after the Iran/Iraq war there was no easing of relations between Iran and the United States. To the contrary, radical clerics warned the Rafsanjani government of the criminal nature of America and recalled Khomeini's dictum that Iran will never stretch its hand toward the United States unless it dies.

Clearly, the easing of relations with Iraq during this time period was meant to maintain the balance of power in the Persian Gulf.

I think, Mr. Chairman, we can all agree that hindsight is always 20/20, but I believe that the question we must ask today is whether, under the circumstances, and given the troubled nature of this region of the world, was it reasonable for the United States to pursue better relations with Iraq at the time.

Thank you very much, Mr. Chairman.

I look forward to the testimony of the witnesses this morning.

The CHAIRMAN. Thank you, Mr. Wylie.

Mr. Schumer.

Mr. SCHUMER. Thank you, Mr. Chairman.

Mr. Chairman, due to your tireless efforts, we are slowly unraveling the disturbing details of the BNL case and the larger issue of the misguided coddling of Iraq by the Bush and Reagan administrations.

Saddam Hussein is President Bush's Frankenstein, a run-of-the-mill dictator, the President fed with billions of U.S. taxpayer dollars and turned him into a monster. Created in the White House laboratory with a collection of government programs, banks, and private companies, Saddam grew beyond the administration's control.

It was the mother of all foreign policy blunders. The White House, the National Security Council, the State Department, and the Agriculture Department practically tripped over each other to find ways to funnel assistance to Saddam.

At the same time, they took pains to ignore or discount Iraq's creditworthiness and Saddam's ruthless behavior. But more than just policy miscalculations are at issue here. Certain aspects of this affair bear marks of a major scandal involving, at best, improper conduct, and at worst, criminal activity by U.S. Government officials.

Evidence of possible wrongdoing is popping up in three broad areas involving: First, administration efforts to tailor or influence investigations of the BNL affair to avoid offending Iraq and derailing the quest for good relations.

Second, administration efforts to veil the full extent of its assistance to Iraq while it was occurring.

And, third, efforts to hide the extent of the relationship once it employed and Iraq invaded Kuwait. We must look closely at the actions of officials from the White House, the NSC, the U.S. Department of Agriculture, the Commerce Department, and the State Department to ensure that they acted appropriately. And we are not talking here about policy miscalculations. That is something that should be public and the public should make its decision as to what weight it should have.

But as chairman of the subcommittee on Crime and Criminal Justice, I am particularly interested in the conduct of the Department of Justice in the BNL investigation and whether other agencies attempted to influence or impede the investigation.

Did the Department of Justice delay the indictments in the BNL case to buy the administration more time to win over Iraq?

Why did the Department not act on allegations of potential wrongdoing by companies and individuals involved in selling military equipment to Iraq?

Why weren't certain individuals and organizations indicted in the BNL case?

On June 2, the House Judiciary Committee will hold a hearing to explore the need for the appointment of an independent counsel to investigate and prosecute possible criminal activity.

I will be working closely with Chairman Brooks and Chairman Gonzalez to determine if there is enough evidence needed to ask the Attorney General to begin the process for appointing an independent counsel. As part of this process, we will attempt to distinguish, and we must attempt to distinguish, misguided policy decisions from potential criminal activity.

Mr. Chairman, as you know, and under your leadership, for many years I have kept a watchful eye on the CCC's Export Credit Guarantee Program and the BNL scandal.

In January 1988, concerned that this multibillion dollar program was poorly managed and ripe for exploitation, I asked the GAO to review its operation. Their findings 4 years ago confirmed my suspicions.

Specifically, the GAO found, one, the Foreign Agriculture Service didn't know if its guaranteed loans were being used for their intended purpose or for some more sinister purpose. They couldn't tell if the money actually went for wheat and rice, or if it went for guns. The Foreign Agriculture Service didn't always know if commodities actually arrived at their intended destinations.

The Foreign Agricultural Service failed to institute adequate internal controls to ensure that financial institutions, such as BNL, didn't misuse program funds, and the CCC couldn't accurately account for outstanding guarantees.

All of these conditions allowed the Banco Nazionale del Lavoro, Iraq, and United States officials to exploit the CCC Program and use taxpayer dollars to build Saddam's war machine.

In 1990, I released a GAO report which documented the 7-year obsession the Departments of State and Agriculture had with granting export guarantees to Iraq. At the same time that the Treasury Department and OMB were saying these loans won't be repaid, State and Agriculture were headlong urging that money be thrown at Iraq, money that either directly or indirectly allowed Saddam Hussein to prosecute future wars.

The GAO concluded, quote, "The U.S. desire to build a strategic and agricultural trade relationship with Iraq outweighed the apparent financial risks involved and discounted evidence of Iraq's human rights violation."

What GAO found was just the tip of the iceberg. In 1990, I asked GAO to determine whether BNL abused the Export Program to finance the export of military materials to Iraq. The GAO investigation is still pending.

They had to suspend their investigation at the request of the Justice Department. It is now resumed, and we expect the results in several months.

But, Mr. Chairman, it is a travesty that there has been this much delay. It is disturbing that Chairman Rose's investigation was not met with more cooperation by the administration.

It is troubling, Mr. Chairman, that your investigation has been limited by the administration's refusal to make more documents available. It is a tired old line that we have heard from the administration time and time again. Whenever it suits its purposes, the administration's Cabinet members ignore congressional subpoenas compelling their appearances before committees of Congress.

They invoke executive privilege and cite national security interests when they want to dodge congressional security.

Mr. Chairman, in conclusion, the Persian Gulf war is over, Saddam is still thumbing his nose at us, but there are no intelligence secrets to be compromised here. What is it that the Bush administration doesn't want Congress and the public to know?

We already know the President's biggest foreign policy success, the Persian Gulf war was made necessary by his enormous foreign policy failure, his tilt toward Iraq, his creation of the Frankenstein, Saddam Hussein, or is there something more damning than poor judgment lurking in the documents?

Thank you, Mr. Chairman.

I yield back.

The CHAIRMAN. Thank you.

Mr. Leach.

Mr. LEACH. Thank you, Mr. Chairman.

I want to take a little different tack if I could for a moment. First, just to summarize where we are in this investigation, I think there is a clear probability that a commercial bank owned by a foreign bank violated United States laws in providing credit to Iraq, and the possibility exists that a United States credit program may have directly been abused to finance Iraq's war capability.

In this regard, my own view is somewhat similar to the last speaker, that prosecution has been slow. And with regard to this part of the chairman's investigation, I think his persistence is to be congratulated.

With regard to our post mortem on our Iraqi policy, I think the post-invasion policy was successful and extraordinarily impressive, the preinvasion policy, however, was imperfect.

We erred in believing that Iraq under Saddam Hussein could be brought into the family of nations. We erred in underestimating the intent of Iraqi leaders, apparently under the false assumption that the country was too worn out from one war to precipitate another.

We erred in underestimating the clandestine purchases of Iraq. We erred in underestimating the weak creditworthiness of that country. But it is key to understand that as myopically mistaken as our diplomatic efforts may have been, there is no, and I repeat, no evidence that policymakers before us were malevolent or corrupt in implementing this policy.

It is key that a distinction be made between misjudgment and unethical and illegal behavior. Here I would agree with the chairman and the last speaker that there is a lot more information that ought to be made public, but I would also say that as inconvenient as it is to this committee, we are also bound by laws, too, and that this committee has a responsibility to the Congress, and to precedent, and to the law, to be very cautious about revealing information that in itself may be classified, whether we like its classification or not.

As for calls for a special prosecutor, again I think we should be very careful to understand that the clear illegal behavior that seems to be indicated occurred in the private sector, that there is no overwhelming evidence that public sector illegalities occurred. Misjudgment should be measured at the polls, illegality by grand juries.

The issue is a close call in the preinvasion policies. As Mr. Wylie pointed out, we have to deal with the circumstance at the time, and here I would stress, where was Congress?

Congress dealt directly with this issue. In fact, we voted on the House floor in close votes. In a general way, Congress held that our agricultural credit policies should be a little bit divorced from some of our political concerns, and we basically said for the sake of Iraqi people we should go forth with agricultural credit sales.

In fact, the distinguished chairman of this committee held that sales should be made, not blocked, by votes in the Congress of the United States.

In addition, I think this committee ought to listen very carefully to the views that will be expressed by Mr. Crowder. Mr. Crowder makes the very interesting point that under the Bush administration, there were more payments made or agricultural credits issue than credits extended to Iraq. In other words, the total credit extension decreased rather than increased under the Bush administration.

In conclusion, let me just stress as strongly as I can that I think the government should be redfaced in judgment, but the batting average of the people before us is rather high in terms of judgment and their characters incontestably honorable. To leave the impression that this hearing deals with issues of illegalities is an impression I think this committee ought to be very, very skeptical of.

We did not create the Frankenstein called Saddam Hussein. We are not responsible for his illegal behavior. We have this great sense in America that we are always at fault for someone else's misdeeds. I think our policy was wrong, but that does not mean that Saddam Hussein's butchery is the fault of the three or four people sitting before this committee. An innuendo of illegality is something that we ought to be very, very cautious about pursuing.

Thank you.

The CHAIRMAN. Mr. Frank.

Mr. FRANK. Thank you, Mr. Chairman.

I would certainly be glad to join in declaring that none of the four men before us are responsible for Saddam Hussein's butchery, and I suspect we could get unanimous acquittal for them on that unmade charge.

What I want to address is the question of the use of confidential classified documents. I would be very unhappy if any documents released damaged the security interests of this country.

I do not believe that any documents that have been released come remotely close to doing that. I would invite the administration in their assault on the chairman to be specific to us. I would take it privately if they would show me where the damage was.

The notion that we are somehow going to injure national security by releasing information about someone with whom we have gone to war is not plausible on its face.

If there is further evidence they want to provide, I would. It seems to me very clear. What we have from the administration are objections to being embarrassed.

Now, I am an old hand at objecting to being embarrassed; I understand the sentiment. It is not pleasant to be embarrassed, but it is not a violation of national security. It is not illegal. It is not unconstitutional.

When people seek by improper use of classification to avoid information coming out because it would be politically damaging or embarrassing, they invite the kind of honest response they have gotten from the chairman. And people who say, well, this is a legitimate subject to pursue, but the chairman shouldn't be releasing the documents should understand that if the chairman had complied with all the strictures that the administration has attempted to place on him, we wouldn't be here.

So what they are saying is, in effect, why did this whole messy business have to come up?

Now, the gentleman from Iowa has said, and others have said, I think it is right, we are talking about some serious foreign policy failures. I think these things have to be looked into, and the effort to divert attention by keeping documents secret when there is no national security negative is clearly impermissible. And again, I want to stress, no one has suggested that any of these documents endanger any American troops.

No one has suggested that exposing these documents reveals the evidence of any mole within the U.S. Government. Nobody has suggested that third-party allies, to my knowledge, are being unfairly compromised.

We are talking about shortcomings within the executive branch of the U.S. Government. We are talking about illegal activities by

Saddam Hussein, and these are all activities that I think the public has a need to know.

So I hope we can go forward on the merits, and the effort to try to choke this off by invoking classification is a very understandable human response. But it is not, to me, at all persuasive on legal or constitutional grounds.

The chairman of this committee is in the process of doing this Nation an enormous service by bringing forward this argument. It seems to be widely conceded here that he has helped us focus on one of the most serious mistakes in America foreign policy in recent time. That ought to be the focus.

How it happened, and as we always do when we are dealing with a situation like this, how do we prevent recurrences. That is the real issue, and I hope we can stay with it.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. McCollum.

Mr. McCOLLUM. Thank you, Mr. Chairman.

I think, certainly, what we are looking at today has some grave implications, but I must say from what I hear and what surrounds this, and the time of year it is being presented in a Presidential election campaign period, it also sounds like it could easily be turned into a—and I don't question the motives of my colleagues, but easily this could be turned into a political circus, a political football, with some going to excesses at times to make points to try to score for the other team with regard to this election cycle.

First of all, looking at this objectively. There doesn't seem to me to be a huge problem with what was initially done.

Now, we want to hear the witnesses. I want to hear as much as anybody else today, but it looks to me like the Agriculture Department pressed something they normally do because there are a lot of farmers around this country that want to export products abroad, and they continue to press that issue. It is a political issue in and of itself. There is pressure on us, on the administration, always trying to get the products, whether it is rice, corn, wheat, or soybeans or whatever sold abroad.

Second, it seems pretty evident that despite the problems we have had with Iraq over the years prior to the war, they always repaid their debts to us, and I think the evidence today is going to show that. They didn't have a problem with doing that.

If we did extend credit to them over the years, and whatever else we may say about who else they defaulted on, they hadn't defaulted on us. So I don't think the gentleman making this decision, as we look at it today, we are going to find fault with looking at the creditworthy question with regard to Iraq, especially not with all the oil they had in the ground over there.

They may have made some misjudgments with regard to what was going to happen. I think every one of us probably did to some extent with Saddam Hussein at moment X, Y, or Z as he built up his military machine.

But if we recall, what this was all about was agricultural commodity monies being extended, and it looks like, looking back over the track record, there was some \$5 billion of credit guarantees extended from 1983 to 1990, and they had repaid almost all of that

without any problems. We didn't give them all the money they asked for in this case, or what was, indeed, extended.

I think only a small fraction, maybe a third at the most, of what they asked for was actually expended. I suspect that when we get done with the hearings today, we are going to find out several things. One of them, however, will clearly be that there wasn't really, at the time the judgment call was made, any question of the creditworthiness that a normal person would question with regard to Iraq on the commodities.

Number two, the main thrust of this was truly agricultural in nature, wanting to sell our products. And it is not an unusual process, done all over the world, all the time.

Number three, there may have been a failure of foresight with regard to seeing where the military part was going to go; but number four, there is going to be no evidence coming out of this hearing that I can see, that there actually was any diversion, that we don't have that record at this point in time. There is no indication we are going to get it, of monies involving the CCC credit loans to—from Iraq to get weapons or whatever else that some people suspect is there. Maybe sometime down the road that is going to come out, but I don't see it here today before anything given to us.

Last, I would suspect when we come out of all this today, we will have a lot of political rhetoric, a lot of finger pointing around the place, but as the gentleman from Iowa said a few moments ago, the integrity of our witnesses and their ability to look at things, I think, will come out of this as it went in; quite intact. That is apparently what it looks like to me, looking at the witnesses' testimony and the statements and the evidence here.

As far as the documents are concerned, I remember I served, Mr. Chairman, on the Iran-Contra Committee, and there are a lot of things in the world of the administration which we don't know until we look at those documents that have intelligence implications. The entire document may not be a problem, but in the Iran-Contra hearings, when we finally subpoenaed documents that we wanted to see and got them from the administration, much of it had to be redacted. This was not because there were things in there that weren't material to us, but because there were things in one paragraph alone, maybe one sentence in that paragraph would have revealed some source that could have led to difficulties in our intelligence community.

I don't know if that is true of these documents, but I think that any carte blanche condemnation of the administration for not giving us everything in their subpoena, fails to take into account that frequently there is written into the kind of in-house record-keeping that every administration has, sensitive information that, if they are going to have to hand over documents to us, requires a great deal of scrutiny, probably some deliberate discussions between all the parties involved, and some redaction of material because there is sensitivity to it.

That is my view of it, but let's let the hearing proceed and find out what does come out of it.

Thank you.

The CHAIRMAN. Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman.

Mr. Chairman, first of all, let me just again congratulate you on the extraordinary work that you have done with regard to this investigation. It never ceases to amaze me to hear the extent to which people will go toward blaming the victim. The reality is, Mr. Chairman, to sit and listen to people suggesting that your investigation was politically motivated in an election year, is to me astounding.

This investigation that you took upon yourself well over a year ago, at a period of time where it was extremely unpopular, where you were personally ridiculed for the extent of the investigation that took place. If, in fact, there are national security issues that were involved, why didn't you people call the chairman up 1½ years ago when he first started this investigation, pull him in, let him know what your concerns were. But that is not what took place.

It was only after his endless pounding away day after day, day after day, uncovering fact, after fact, after fact, that now we hear national security complaints. You know, I am interested to also hear that as one of the—as the chief of the minority side of the—this committee suggested, that Syria is responsible for the bombing of the Marines in Lebanon. This, seems to me, is reasonably new news. This is something where during the Iran or—during the Iraq conflict with the United States, we saw President Bush sending his Chief Foreign Policy Advisor over to hold hands with the head of Syria, and to now suggest that Syria was responsible for the murder of the Marines, I think is a clear demonstration of the kind of inconsistency in foreign policy that this committee is now having to investigate.

I mean, fundamentally what we are really talking about here is not the politics of what is taking place in 1992, what we are talking about was the gloating that took place as a result of this administration taking on Iraq in a war. We are not suggesting, as Mr. Leach seemed to imply, that these gentlemen are responsible for Saddam Hussein, but the reality is that the administration armed Saddam Hussein and continued to provide him with technical assistance, continued to prop up his administration at a period of time when it could have very likely failed. And it is entirely reasonable that the Congress of the United States has some responsibility of determining and exposing to the American people what the real policies of this administration were.

If, in fact, there was subterfuge going on where we knew that agricultural subsidies, I don't—it is news to me that the White House is involved in agriculture subsidies to specific countries.

I mean, does that happen on a regular basis? Do you people involve yourselves on those kind of decisions on a regular basis? No wonder our country is in trouble economically if that is what you guys are doing with your time.

I mean, the reality is that there are some very legitimate concerns that the American people ought to have, that Members of Congress ought to have, with regard to what Chairman Gonzalez has single-handedly exposed, and I want to thank you very much, Mr. Chairman, for your untiring and your thankless job that you have embarked on and the fact that I think that it is absolutely the

full responsibility of people on both sides of the aisle to not hide behind national security issues.

If there are national security issues, let them tell us. Let them tell us in concrete terms what it is they are concerned about.

But if it is simply the kind of Nixonian tactics we have seen in Watergate of trying to undercut the truth being allowed to come forth because it is going to provide embarrassment to an administration that was up on its high horse trying to condemn any individual that didn't vote for them on an issue involving going to war with Iraq, then it seems to me that it is entirely within the norms and the actual responsibilities of people on both sides of the aisle to get to the bottom of this investigation.

Mr. Chairman, I wish to congratulate you on the work you have undertaken.

The CHAIRMAN. Thank you very much, Mr. Kennedy, for your kind remarks.

Mr. BEREUTER, did you have a statement?

Mr. BEREUTER. Yes, Mr. Chairman, I do want to say I take sharp exception to a number of the allegations and suggestions coming from some members on the other side of the aisle.

I take particularly sharp objection to the last conclusions of the gentleman from New York. I want to associate myself with remarks of the ranking minority Member, Chalmers Wylie, and I would reiterate my concern about the handling of classified information, not only its impact upon interbranch relations but its international implications as well. And in order to expedite the process, I ask unanimous consent, Mr. Chairman, that my full statement be made part of the record.

The CHAIRMAN. Without objection, it is so ordered.

Mr. BEREUTER. Thank you, Mr. Chairman.

The CHAIRMAN. Yes, Mr. Moran, do you have a statement?

Mr. MORAN. Yes, Mr. Chairman.

Mr. Chairman, we seem to be going back and forth. I do think there are a number of things we can't agree on between both sides of the aisle, but my very respected colleague, Mr. Leach, has asked where was the Congress.

The fact is that this very committee passed sanctions against Iraq for the \$200 million export-import credits that were being given to Iraq. It was suggested by Mr. McCollum; in fact, it was proposed. This committee passed it.

In fact, we now have evidence that the White House had prepared waivers to override that sanction when it was proposed months before it was actually enacted, and, in fact, did waive the sanctions against Iraq in 1989. So we ask where the Congress was. The purpose of this—I think you have an idea where the Congress was, at least the majority of them, the purpose of this hearing is to figure out where the Presidential leadership was.

You know, 5 days before the invasion of Kuwait by Iraq, there was a debate on the House floor, July 28, and I would hope the American people might go to their libraries and pick up that debate. It couldn't be more illuminating. The State Department had overridden the advice of the Agriculture Department and several other people in the administration insisting that Iraq get \$500 million more of credits, knowing they were going through the BNL

bank in Atlanta with evidence, and it was presented on the House floor, of the corruption.

We knew the corruption that was going on in that bank, we knew that kickbacks were being given, we knew that the money was being used instead of to buy rice, to acquire machine parts that could be used in their military effort. We knew that there were 30,000 Iraqi troops on the border of Kuwait 5 days before the invasion.

It was in the record, and yet the administration insisted that Iraq be given \$500 million more in credits after they had already been given \$4 billion. It was brought out the gassing of the Kurds. All of the rationale that the President used for equating Saddam Hussein with Hitler, all of that rationale had already existed. It was brought out in the debate, and still the administration insisted that money go through, and that—it seems to me we ought to focus on that because that brings us right up to the eve when all of a sudden, administration policy changed. That is what we are trying to figure out. Is this some kind of realpolitik reductio ad absurdum?

It seems like the extreme of political expediency. We have all this information before us. The President subsequently uses it to make the decision that he was—that he should have made, that we don't argue with, but why didn't we use this information to at least sanction Iraq for its extreme violation of human rights, sanction it for the corruption that we knew was taking place with our credit programs, and why even 5 days before the invasion when we knew there were 30,000 Iraqi troops on the border, wouldn't the State Department and the White House, it was the State Department, the White House, and the National Security Council that overruled the judgment of the other people in the administration that were insisting that that additional \$500 million be made available.

Now, if that information isn't correct, please let me know. But we can read what is in the *Congressional Record*.

I don't think that the factual material that was brought out as far as the corruption in the BNL bank, that we know now that the troops were there, and we certainly know about the gassing of the Kurds. All that information was available.

We knew that they had taken \$4 billion and not used it for the purposes for which it was authorized, and yet the administration still insisted we proceed and give them that money.

It was a farm State Congressman, Mr. Glickman, that proposed the amendment. And I would like when we get into some questions, to focus on that particular point in time, the eve of the invasion.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. McCandless.

Mr. McCANDLESS. Thank you, Mr. Chairman. I think we are kind of going in one direction and then turning around and going in another direction. I would simply say that I believe that Mr. Wylie and Mr. Leach's opening remarks have captured the essence of what our responsibility here is as a Banking Committee.

I keep listening to some of these comments and I am wondering if I have been promoted to foreign affairs. We are here for a review of the regulatory process as it relates to financial institutions, and

I would hope that we could move on with that and listen to our distinguished panel.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Slattery.

Mr. SLATTERY. Thank you, Mr. Chairman.

I, too, would join my colleagues, Mr. Chairman, in commending you for the tenacity that you have demonstrated in pursuing this whole matter. And I would also like to thank the panelists who are here today, and we look forward to their testimony.

As we go forward today, it seems to me we should be focusing on two basic questions: Why did all of this happen, and who is responsible for it, and I think both of those are very legitimate questions that the American people have a fundamental right to know.

It is really pretty incredible when you start to reflect on this whole policy. You know, why did the Bush administration continue to issue to Iraq, practically right up until the invasion of Kuwait, Commodity Credit Corporation loan guarantees, Export-Import Bank credits, all of which was backed by the American taxpayer?

And as Chairman Gonzalez is fond of pointing out, the problem appears to revolve around money. The Bush administration seemed to think that the United States could make money from Iraq.

The CCC Program and the Eximbank credits were the most convenient tools for pursuing this policy and the reason was because these credits could be disbursed without congressional approval, and it is important to keep that in mind.

Congress had soured on Iraq after Saddam Hussein gassed 2,000 Kurds in March 1988, and the Bush administration opposed repeated efforts by Congress in 1989 and 1990, to impose sanctions on Iraq for the use of chemical weapons arguing that United States businesses stood to gain enormous profits rebuilding Iraq.

President Bush felt that the best way to straighten out Saddam Hussein was to trade with him and improve economic relations. The President was wrong. The United States and Iraq did not become friends and the United States didn't make any money.

In fact, when we look at the facts now, what do we see? We begin with a \$2 billion CCC loan guarantee problem.

Iraq has defaulted on that \$2 billion loan, and the American taxpayers are now paying those loans back. Then there was the money which the United States was overcharged in CCC guarantees, some \$20 to \$40 per ton above the going rate for certain commodities. This was documented in a May 1990 report by the U.S. Department of Agriculture, which we will be addressing later today in our hearing.

These excess profits totaling hundreds of millions of dollars paid for bribes to Iraqi officials, calculators, copy machines, and weapons such as artillery, ammunition, and small arms, all paid for apparently by the American taxpayer. There was the money which Iraq demanded in CCC guarantees just to ship the food supplies, an allowance not made for other countries, but funded, of course, by the American taxpayer. And then there was the money in the commodities themselves. We now suspect that the Iraqis simply swapped food for arms with the former Soviet Union, and there was a lot of money loaned illegally to Iraq by BNL, its American branch located in Atlanta.

FBI investigators found about \$4 billion in unreported and bad loans to the Iraqi Government when they raided the BNL offices in August 1989. Almost \$1 billion of the bad loans were backed by CCC guarantees.

Documents unearthed by Chairman Gonzalez and others show that the Bush administration knew about most of these problems by late 1989. Yet, the administration insisted on continuing the CCC and Eximbank programs into 1990. And the question is why, why was all this going on?

On January 17, 1990, President Bush signed a waiver of provisions in the fiscal year 1990 Foreign Aid Act, which had prohibited Eximbank fund financing for Iraq. Why?

On July 27, 1990, 6 days before the invasion of Kuwait, the administration lobbied Congress to continue all guarantees for Iraq. I remember the debate very clearly, because the amendment was offered by my colleague from Kansas, Mr. Glickman, and this was an amendment to the Farm bill which would have denied CCC credits to Iraq.

Why was all this going on?

And apparently at this time, April Glaspie was telling Saddam Hussein in their meetings that she was working, and this government was working, to continue and extend another \$500 million in CCC credits to Iraq.

I voted for the Glickman amendment, as I voted in the year prior to that to impose sanctions on Iraq for using chemical weapons, because as far as I was concerned, there are certain things that this government should stand for that are more important than money.

Now, who was responsible?

The second question that we need to ask today is, who was really responsible for this policy of appeasement toward Iraq?

And I think we can begin with President Bush because he has a long history of going to bat for Saddam Hussein.

Chairman Gonzalez and others have documented that on at least two occasions while Mr. Bush was Vice President, in 1984, and again in 1987, he intervened personally to convince the Export-Import Bank to extend credit to Iraq over the objections of the Bank's own staff economists who warned that Iraq was a poor credit risk.

The State Department apparently had a couple of major players involved also. Secretary of State Baker did not agree with the USDA's concerns in 1989 about providing Iraq with \$1 billion worth of CCC guarantees, so apparently he called Secretary Yeutter.

Secretary Yeutter changed his mind and agreed to approve the guarantees. Deputy Secretary Eagleburger also worked hard to secure the package of CCC guarantees for Iraq in 1989.

He apparently lobbied the NAC, and despite objections from the Department of Treasury and the Office of Management and Budget, the additional package was approved. Now, the Agriculture Department claims that they didn't feel any political pressure from anybody, so who knows what was going on there, but I think we have a right to know.

And Secretary Mosbacher in the Commerce Department certainly seemed to have no problems with Iraq. Between 1985 and 1990,

while Saddam gassed Kurds, defaulted on loans, abused the CCC Program, and threatened to burn up Israel, the Commerce Department approved 771 export licenses for Iraq, totaling \$1.5 billion, and according to Dr. Gary Milhollin, the Director of the Wisconsin Project on Nuclear Arms Control, who testified before this committee 2 weeks ago, 43 of these licenses were for components useful in manufacturing atomic weapons or long-range missiles.

Mr. Chairman, there are an awful lot of questions that need to be answered, and I think the gentlemen before us today can provide some of the answers to these questions.

I would just conclude by observing that I am troubled by suggestions that your requests for information, Mr. Chairman, are somehow a violation or a threat to national security. This has all the appearance, frankly, of using the veil of national security to hide colossal political blunders, and I just hope that we can get to the bottom of this.

I look forward to the testimony of the gentlemen before us, and I yield back any time that I might have.

The CHAIRMAN. Thank you, Mr. Slattery.

Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

I appreciate you allowing me a little time here. I have heard a lot of talk about Iraq, and I think that, granted, today the situation there is something that needs to be considered very seriously, and I have as a fact, because of the atrocities and other things carried on over there, have called for us to go in and get Saddam out and bring him back here and put him to trial. And I don't think that situation is any different than it ever was.

But today this hearing has raised two major concerns with me, and the first is selective hindsight that the Democrats on the committee use to employ and analyze our policy toward Iraq.

Second is the apparently indiscriminate release of sensitive documents. In this matter, I believe the Democrats are confusing a legitimate attempt at diplomacy and trying to keep a powder keg from exploding with the strange notion of a coverup. The Democrats' narrow view conveniently omits relevant facts behind our foreign policy in the Middle East and Persian Gulf, and you are right, we are talking about foreign affairs here. Iran was then, and still is, a dangerous player in that region.

They have tried to export their fundamentalist revolution to the Arab world and they possessed then, and still possess now, a very large and powerful military. However, at that time Iran was pursuing all avenues to purchase advanced military equipment, including nuclear, and when you are working with your interests in foreign policy, it sometimes means that you got to work with those that you don't necessarily care to work with, and this is a fact of life in international relations.

There weren't any good guys wearing white hats over there, so we did what we did to stem Iran's influence, and on its own, helping Iraq was not what we would have liked to have done, but at the time probably necessary.

I don't know anyone here that was or is a fan of Iraq, but you have to take into consideration the greater evil, Iran at that time, on examining our policy in the Persian Gulf. We can look at this in

another light. What if the United States had not tried to impede Iran's domination of the Middle East? Unchecked, Iran under Khomeini could have wreaked untold havoc.

It simply was necessary for the United States to try to build ties to Iran's major opponent, in this case, Iraq, and sometimes we did things that were distasteful.

Regarding the release of classified documents, respectfully, Mr. Chairman, I understand that you and your staff have defended the release in the *Congressional Record* by saying the issues contained do not relate to current U.S. policies or activities.

I don't know who appointed them the arbiters of national security because—just because the events detailed in the released documents occurred in the past does not mean they can't impinge on our national security now or in the future. And we have a responsibility at oversight, but as Members of Congress, we are not charged with determining what is and what is not in our national security interest.

Each one of us represents 1 of 435 districts, but the President represents the entire Nation, and as such, has to make those decisions. The repercussions in releasing sensitive documents can be serious, and I believe that this fact has been overlooked or ignored by members of this committee.

I thank all of our witnesses for being here, and I look forward to their testimony, especially Secretaries Eagleburger and Robson, and thank you for being with us.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman still has about half a minute, and I would ask him to yield to me since he referred to my decisions here, and I take responsibility.

The staff is very valuable, but I think the gentleman ought to know by now that I was one of those that first coined the phrase here that staffs were to be on tap and not on top. When the gentleman talks about national security, well, we will go into that, but the record speaks for itself and the documents that I placed in the record, speak for themselves.

I think there is an old saying that I learned when I was learning English. It goes back, it is very apt. It goes to the effect, La verdad no peca, pero incomoda, which simply put says, the truth never lies but it sure makes a lot of people uncomfortable. And I think it is very applicable in this case.

I can assure the gentleman that any national security implications or any truly defined security documents would have been very much of concern to me, and certainly releasing them in the *Congressional Record*, which, incidentally, I think there is a conflict here as to what I have said and what others in other committees have said with relation to some of these documents. The record speaks for itself, and I stand on that.

But I want to assure my distinguished colleague from Texas that there have been times when I have been attacked both ways, I learned, however, through a preen of information that years later when I got elected in a specific election on November 4, 1961 that that evening, the FBI agent in charge, in my district, which incidentally have participated in this election against me, sent a memo to J. Edgar himself, stating that tonight the Liberal, radical Demo-

crat, State Senator Henry Gonzalez, was elected to the U.S. Congress to represent the 20th Congressional District with Communist help.

Well, you know, when I looked at that years later, I just couldn't imagine this great FBI, who they had reference to. I had never been to Russia, and I had never met anybody that was even whispered as being a Communist.

There was one poor guy that the newspapers reported in San Antonio as being an avowed card-carrying member of the Communist Party. I never met him, and the only remark he ever made with respect to me was very critical. He said that I was not a true Liberal and I wasn't Liberal enough and that in reality I was a Conservative.

So I want to tell the gentleman that I am sensitive to that issue, and I think that there are overriding concerns when an overriding branch of the government, whether it is the executive, or the congressional, or the judiciary, in our history it has happened, has been taken care by some retrieval of this colloquy among the powers, but I want to assure my—

Mr. JOHNSON. Will the gentleman yield?

Mr. LEACH. Will the gentleman yield?

Mr. JOHNSON. We appreciate your conservative view.

Mr. LEACH. I want to say as strongly as I can that the minority surely feels you are a card-carrying American.

The CHAIRMAN. I am a what?

Mr. LEACH. Card-carrying American.

The CHAIRMAN. I appreciate that; really I do. I mean, I like to have those credentials. If you will print the card to that effect.

Mr. Sanders.

Mr. SANDERS. Mr. Chairman, I thought I was the only person here with an FBI record of investigation, but it is good to know I am in good company.

Mr. Chairman, first of all, let me echo what Mr. Kennedy and others have said, and congratulate you for your efforts in pursuing this very important issue of America's relationship to Iraq before the war.

The issue that I want to touch upon briefly now is a little bit different and that is the concern that I have that the BNL scandal reveals that important American officials to an alarming extent, in my view, have failed to draw a line between this Nation's national security and their own personal pursuits of business.

Now, we have heard today some question about whether you have acted properly, and so forth and so on, but I think we might want to approach this issue from another way and that is that the BNL investigations appear to indicate that the State Department, Under Secretary of State Shultz, lobbied for Export-Import Bank credits to build an Iraqi oil pipeline, the construction of which was to be done by Bechtel, Inc.

As we all know, Mr. Shultz worked for Bechtel before coming to the State Department, and lo and behold, he went to work for Bechtel after leaving the State Department. The BNL investigation reveals that Brent Scowcroft, Head of the National Security Council, lobbied to provide Commodity Credit Corporation credits to Iraq and that the largest participant in these loans was BNL, Atlanta.

Mr. Scowcroft worked for Kissinger Associates before he became head of the NSC, and BNL was at that time a Kissinger Associate client.

He helped postpone the legal investigation of BNL, Atlanta, despite his previous employer's ties with BNL and the fact that the employer's chairman, Henry Kissinger, was a paid member of the BNL advisory board between 1985 and 1991.

Mr. Eagleburger, our guest here today, and we are all looking forward to hearing from him, was Deputy Under Secretary of State for Political Affairs under President Reagan. At that time, as I understand it, he wrote Export-Import Bank Chairman Draper and urged that the Export-Import Bank provide credits to Iraq, credits which were to prove essential to the ultimate extension of more than \$4 billion in loans from BNL, Atlanta, to Iraq.

Thereafter, as I understand it, he left the State Department and became president of Kissinger Associates. Kissinger Associates had, as mentioned, BNL as a client. BNL also at this time was the largest source of funds for the Yugoslavian LBS Bank, of which he was a director. Then in 1989, he left Kissinger Associates and became Deputy Secretary of State under President Bush.

In 1989, he intervened directly, as I understand it, to win approval of \$1 billion in CCC credits to Iraq, just months before Iraq invaded Kuwait, and so forth.

These are issues I think that are important and need to be discussed, and I think as Mr. Slattery mentioned earlier, sometimes some of us get a little bit confused. We get confused and the American people get confused, when year after year the United States Government gives essential supports to Saddam Hussein of Iraq, and then, lo and behold, we tell the American people the day after the war breaks out that this was Hitler.

Well, if he was Hitler the day after he invaded Kuwait, he was Hitler before he invaded Kuwait, because this man has one of the most disgusting vicious human rights records on Earth. And I don't see how you become a Hitler the day after when you don't become a Hitler the day before, after, as Mr. Slattery mentioned, you gas your own people.

If he is Hitler, he is Hitler before and after.

Second of all, some of us get concerned that people like Mr. Assad of Syria, who I believe probably under State Department definition, and maybe you can answer this later, is still recognized as an international terrorist. Well, if this guy is an international terrorist before, we want to know why he is not an international terrorist today.

What has he done lately to get rid of that title? Some of us think he has done nothing, he is still an international terrorist.

So I think, as again Mr. Slattery and others have indicated, it is important for the American people. We understand that under certain circumstances you have to bend a little bit.

We all live in the real world, but some of us believe that if this country is to stand for anything, you do not go to bed with mass murderers and, in fact, terrorists. That is not what this country is about, and I think this whole process has indicated to many American people that we have done just that.

I yield back the balance of my time, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

The Chair will report that we are honored by the presentation of a distinguished colleague who is the chairman of a subcommittee that corresponds in some jurisdictional aspects with ours, in the Government Operations Committee, the Honorable Chairman Tom Lantos.

And I am going to ask unanimous consent, if there is no objection to recognizing Mr. Lantos if he wishes to make a statement at this point and to participate in the questions at the proper time as we go into the hearing.

Mr. FRANK. Reserving the right to object, Mr. Chairman, and I do so only to make the point that this is a courtesy which Mr. Lantos in his capacity extended to members of this committee when he was doing the hearings in HUD.

So I would point out to the people that this is a pure act of reciprocity because the gentleman extended the same courtesies to many here.

The CHAIRMAN. Is there any objection?

Hearing none, Mr. Lantos, do you have any statement?

Mr. LANTOS. Thank you very much, Mr. Chairman.

First, let me thank you for being so gracious and allowing me to participate.

At the outset, I would like to identify myself with the commendation you have received from my friend, Congressman Kennedy, and others, for your perseverance.

There are two or three points I would like to make, Mr. Chairman, because as vice chairman of the Middle East Subcommittee of the House Foreign Affairs Committee, I have been following very closely our relations with Iraq for 11½ years, and I believe that a great deal of what this committee is dealing with is contingent upon some fundamental policy mistakes of the Reagan-Bush administrations during its 11½ years of mistaken conduct vis-a-vis Iraq.

Before I deal with this issue, however, in view of some observations concerning Mr. Eagleburger earlier, let me state for the record that I don't think there is anyone in the administration or in the Congress with a greater degree of personal integrity than Secretary Eagleburger. And while I believe we may disagree on questions of policy, I would be the first one to be sworn in as a character witness for his unquestioned integrity in all these dealings.

Mr. Chairman, the phrase that kept coming up during earlier comments from Mr. Johnson, Mr. McCandless, and others, is the phrase "selective hindsight." I simply cannot allow this attempt to succeed and camouflage a fundamental policy failure on the part of the administration with respect to Iraq.

We are not engaged in "selective hindsight." If you will allow me, Mr. Chairman, I would like to read just brief paragraphs from the *Congressional Record* at four different points in time, which underscores the fact that a number of us on the Foreign Affairs Committee and others in the Congress, pointed out to the administration the stupid and unconscionable conduct that this administration has had vis-a-vis Saddam Hussein during its entire tenure.

On June 9, 1981, 11 years ago, I made in part the following statement on the House floor. This was at a time when the Israeli Air Force destroyed the Iraqi nuclear reactor which was producing enriched uranium that could be used for the development of nuclear weapons by Iraq. I am quoting from the *Congressional Record*. "Mr. Speaker, 2½ months ago from this very spot I called attention to the growing menace of Iraq's irresponsible and reckless dictatorship moving inexorably toward the completion of its nuclear arsenal.

"The Iraqi regime is in the midst of a war of aggression against its neighbors. It has openly defied worldwide consensus concerning nuclear nonproliferation and has repeatedly threatened the annihilation of Israel. The Israeli Air Force, with a preventive and limited strike, has obstructed the completion of Iraq's weapon of mass destruction."

By the way, parenthetically, let me add, had this strike not occurred, our troops in the Persian Gulf war would have faced a nuclear-equipped Iraq, which the administration would like to forget.

"Those who now criticize Israel's decision to protect its very existence would be the first to call for the obliteration of any nuclear facilities constructed in Cuba, so near our own borders. Many were silent as Iraq threatened to defy the terms of the Nuclear Nonproliferation Treaty. Many were silent as several European powers supplied the Iraqi dictatorship with lethal nuclear technology."

We have continued to remain silent as even now Libya's Qadhafi installs his nuclear weapons arsenal. Whether they act or will they choose to submit to nuclear blackmail and quietly hope that the Israelis again will take care of the problem.

This was June 9, 1981, not selective hindsight.

If you will allow me, Mr. Chairman, I would like to read a brief paragraph from September 26, 1988, from the *Congressional Record*.

In the fall of 1988, 2 years before the invasion of Kuwait, I introduced legislation to impose economic sanctions against Iraq. That legislation passed the House by a large majority but it was killed by the White House and the State Department.

This is what I said September 26, 1988: "Mr. Speaker, there is question about the facts of the matter before us today. Within the last months, Iraq used chemical weapons against Kurdish men, women, and children during a major offensive against them in northern Iraq. The number of casualties from this latest offensive has been in the thousands. Even those who oppose sanctions against Iraq do not deny the horrible details of what happened.

"The Department of State has said there is incontrovertible evidence of massive use of poison gas based on interviews by State Department officials with Kurdish refugees from Iraq who are now in Turkey. This is not the first time that the Iraqis have used poison gas. It has been used against Iranian troops in the Iran-Iraq war, and it has been used on previous occasions against the Kurdish population of northern Iraq.

"Despite this incontrovertible evidence of the use of poison gas, the State Department suggested in a letter to the Foreign Affairs Committee that such sanctions are, I quote, 'premature.' I wish it were premature. Unfortunately, there are large numbers of dead

men, women and children, indicating that our action is cowardly and tragically long overdue. Poison gas has been used repeatedly on a large scale against Kurdish civilians. This action is by no means premature. In fact, if the United States had taken stronger action, this latest tragic outrage by Iraq against the Kurds might not have taken place."

Next, Mr. Chairman, I would like to take a paragraph from April 29, 1990, the *Congressional Record* on the reality of our policy toward Iraq. This is during a questioning of the Assistant Secretary of State, Mr. Kelley.

"With all due respect, Mr. Secretary, I detect an Alice in Wonderland quality about your testimony. Let me tell you why. You accurately recite the chamber of horrors. The Department of State calls Saddam Hussein's outrageous and preposterous comments inflammatory, irresponsible, and outrageous. You talk about Iraq using poison gas against its own people, diplomats engaging in murder plots in the United States, and the government's smuggling nuclear trigger devices here and from the United Kingdom, and other places.

"We now have the big gun episode which is lied about as all other episodes are lied about, and a human rights record which, according to the State Department, is a nightmare. Then you express the hope, Mr. Kelley expresses the hope, which boggles the mind, that somehow this will change and Iraq under Saddam Hussein, will turn in the direction of being a responsible and civilized and peace-loving and constructive member of the international community. I find this, to put it mildly, a non sequitur."

And finally, Mr. Chairman, on July 27, 1990, 4 days before the invasion when the Assistant Secretary of the Department of State was pleading with us to take no action against Iraq, 4 days before we went to war, this is what I said:

"Mr. Speaker, we have witnessed a new low in Iraqi diplomacy under President Saddam Hussein. This week, in order to make his point in the regular meeting of OPEC, Saddam Hussein massed 20,000 Iraqi soldiers on the border of Kuwait and launched a vituperative media assault on Kuwait and the United Arab Emirates. Needless to say, Kuwait which has a total military of 16,000, agreed to the Iraqi demands at OPEC.

"We are witnessing the emergence of a new Hitler in the Middle East. Saddam Hussein has already used poison gas against thousands of his own Kurdish citizens, and just a few weeks ago, threatened to use poison gas to destroy half of Israel. The same irresponsible leader is involved in an effort to develop atomic weapons, as was evidenced by the arrest recently of Iraqi agents who were apprehended attempting to smuggle nuclear triggers from the United States to Iraq.

"Mr. Speaker, the time has come for the Congress to take a firm stand against this vicious, irresponsible and dangerous leader and so on . . ."

What I am saying, Mr. Chairman, is that had the policy mistake of 11½ years not been so clear and so clearly pointed out to this administration and had the administration needed these valid criticisms there would be no need to worry about the credit guarantees. There would be no need to worry about the secret documents.

What underlies the administration's embarrassment is that they called it wrong steadily and consistently with a remarkable degree of perseverance, ignoring all of the public criticism that they were getting in the Foreign Affairs Committee and elsewhere.

My hope is that this administration has learned its lesson with respect to Middle East dictators and will not pursue similar mistaken policies now with respect to the dictator of Syria and others.

I want to thank the chairman for allowing me to state that.

The CHAIRMAN. Thank you, sir.

Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

I will be real brief because I know we have a vote up.

Let me say that I do appreciate your tenacity, Mr. Chairman, and your stick-to-it-iveness and your doggedness. I think we all appreciate that, and Mr. Lantos had mentioned that Secretary Eagleburger is a man of high integrity, utmost integrity, and I think that is correct and that is one of the reasons why it is so great to have Mr. Eagleburger here today.

I must say that I have been to a lot of hearings but I have never heard so many unsubstantiated charges thrown around, even before the witnesses have had a chance to give their testimony.

The administration is being mugged here today. This smacks of a kangaroo court, the court of the star chamber is in session.

Our chairman, who we all admire a great deal, quoted a Spanish proverb "that the truth never lies"; but what is the truth?

I am delighted to have these witnesses so we can get to the truth, because I have confidence in the people we have as our witnesses.

Yes, the administration is being ambushed here today, and I think those of us who are after the truth have to listen to the witnesses before we cast judgment.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Roth.

And I will say that concludes the opening statements to the gentlemen at the table.

We had a notice of a recorded vote.

We had been expecting that and we thought it would be best to finish this aspect and then hear the witnesses unimpeded, as far as we could, before we had a recorded vote.

We will recess momentarily for the Members to record their votes, and ask the continued indulgence of the witnesses.

[Recess.]

The CHAIRMAN. The committee will please come to order.

We are involved in a process that will probably call for another vote after awhile, nobody knows for sure how long. We have the Rescission bill which is very important and it is going to attract some Members there, but we have enough who have returned to proceed with the hearing.

I wanted to state what I had said earlier that we had received Secretary Robson's testimony only, but we had Mr. Kelley's, as well, and I wanted to thank you for it because it gives us a chance to look it over. We did not have the other two gentlemen's testimony, so we are ready to hear from you and we will recognize you in the order that we had listed. And I am sure you had a copy of that. Secretary Robson. You are recognized.

**STATEMENT OF JOHN E. ROBSON, DEPUTY SECRETARY, U.S.
DEPARTMENT OF THE TREASURY**

Mr. ROBSON. Thank you, Mr. Chairman. Before I get into my statement, I would like to make a brief personal statement and that is to say that I do not associate myself with any of the remarks that Congressman Lantos made except one, his observations on my friend Larry Eagleburger. I must say that I find it most regrettable that allegations and insinuations of the sort that have been made against a man I know to be entirely honorable and a fine public servant have been made in your committee.

That said, Mr. Chairman, I do welcome this opportunity to discuss the role of the National Advisory Council on International Monetary and Financial Policies, which we will refer to as the NAC, concerning the Commodity Credit Corporation's fiscal year 1990 program for Iraq.

As the committee is aware, in November 1989, the NAC recommended that the 1990 CCC Program for Iraq go forward. What I have to say is not complicated. I am going to outline for you how the NAC undertook an orderly, deliberative assessment of the pros and cons of proceeding with the proposed program and how, with our eyes open, as to the uncertainties and possible risks we weighed the pros and cons, came to a decision, and established some measures to help protect against those risks.

Today, of course, in 1992, we and the rest of the world know the events that took place subsequent to the NAC's recommendation in 1989. And in retrospect, even with that knowledge, I firmly believe that the NAC process leading to its recommendation was open, grounded in the facts then at our disposal, and responsible.

Before getting into the specifics of the NAC's consideration of the Iraq Program, it may be useful background to discuss briefly the organization and operations of the NAC. The NAC was established in 1945 by the Bretton Woods Agreements Act, the same legislation which authorized the United States' membership in the World Bank and the International Monetary Fund.

At present, the NAC's chief activities concern the loan and guarantee programs of the Export-Import Bank, the CCC's GSM-102 and GSM-103 Credit Guarantee Programs and Public Law 480 debt reduction under the Enterprise for the Americas Initiative.

As its name implies, the NAC is an advisory body only. It cannot veto a transaction proposed by the Export-Import Bank or the Department of Agriculture. Usually, consensus is reached among the members regarding NAC positions on proposed transactions. The bulk of the work of NAC is handled by its staff committee. However, any member has the right to request that a meeting be convened of the representatives from the NAC member agencies at higher policy levels such as the NAC Alternates, an Assistant Secretary level group, or at the Deputy Secretary or Cabinet level.

Regarding the committee's questions about classification of NAC minutes, my staff reviewed our records of NAC meetings and found that NAC minutes were classified on 25 occasions since the mid-1960's.

In early August 1989, the Department of Agriculture presented to the NAC a proposal for a program for \$1 billion in CCC guaran-

tees to Iraq for fiscal year 1990. The NAC considered the proposed program in a series of meetings over, roughly, a 2-month period and this debate culminated in early November 1989 at a meeting of the NAC at the Deputy Secretary level which I chaired.

In an October 1989 meeting of the NAC staff committee, USDA requested NAC action on its fiscal year 1990 program. In the course of the discussion, the staff committee suggested that USDA propose to the Iraqis a \$400 million first tranche on a fiscal year 1990 CCC Credit Program.

A month later, the NAC staff committee held a meeting at which the Agriculture Department representatives stated that Iraq regard the \$400 million program as insufficient for its needs.

Accordingly, USDA repropose a \$1 billion program for Iraq but indicated that the guarantees would be made available in two equal installments, the first \$500 million to be granted currently and the remaining half to be contingent on satisfactory resolution of the Banca Nazionale del Lavoro [BNL] affair, which had come to light in late summer of 1989. In the course of the discussion, the Treasury representative asked that the issue be referred to a higher level.

Four issues were paramount in the NAC's discussions throughout this series of meetings. Iraq's creditworthiness, the United States interest in maintaining our share of the Iraqi market for agricultural exports, possible wrongdoing by Iraqi officials with respect to the CCC Program arising out of the BNL affair, and United States foreign policy interests. Let me turn to the consideration of those interests.

Concerns about Iraq's future repayment of its guaranteed credits were based on reports of Iraq's failing to make scheduled payments to creditors in other countries and high military expenditures which raised questions about the future availability of funds to service its debts. Iraq had not undertaken to reschedule its overall official debt through the Paris Club mechanism and had attempted to work out rescheduling arrangements with various creditors on a bilateral basis.

Iraq was not in arrears on debt to the United States at that time and Iraq's record in servicing its United States guaranteed debt was excellent. Moreover, Iraq's large oil reserves were an apparent long-term source of foreign exchange to service its obligations.

The possibility that United States farmers and agricultural exporters could make or lose substantial sales in Iraq was a matter of great concern. The United States had already lost sales there, and Iraq would be making its buying decisions soon. A number of United States agricultural exporters had valid contracts with Iraq and were waiting to register with the CCC.

The BNL affair involved the Atlanta branch of BNL, which had allegedly financed large amounts of exports to Iraq and had hidden this fact from Federal regulators as well as BNL's head office. A portion of this financing was guaranteed by the CCC under its GSM-102 Program.

The Department of Justice first uncovered the apparent irregularities and immediately began a criminal investigation. A number of other agencies, including USDA and the Federal Reserve, also initiated their own investigations. The Treasury Department sup-

plemented this information through contacts between its legal staff and the U.S. attorney's office in Atlanta.

In evaluating proposals for additional CCC guarantees for Iraq, concerns were raised about the possible effects of the BNL affair on the CCC Program, including the possibility that Iraqi officials had illegally used credits extended by BNL and guaranteed by the CCC to benefit either themselves or the Government of Iraq.

One possibility considered was to delay action on the proposal for the fiscal year 1990 program for Iraq pending clarification of the BNL situation. There were rumors but no firm evidence of Iraqi official involvement or complicity in improprieties in connection with the CCC Program. Moreover, it was observed that it might take many, many months before the BNL situation was clarified.

Deputy Secretary Eagleburger will cover in detail the United States foreign policy context of the Iraqi CCC Program. Let me simply say that the State Department was consistent and firm in its view of the Iraqi relationship's foreign policy significance to the United States and the importance of the CCC Program to the maintenance of that relationship.

An NAC Deputy Secretary level meeting—at which the State Department, I should add, was represented by its Under Secretary for Political Affairs—was convened on November 8, 1989 to review the USDA proposal for the \$1 billion CCC Program in two \$500 million installments.

My approach to the meeting was that the proposed program should be evaluated first on the basis of whether it was responsible from a programmatic standpoint, and second, that our deliberative process in reaching our decision considered all the relevant issues.

We were to decide whether or not the CCC should proceed with the fiscal year 1990 Iraqi Program, and the path to that decision required us to examine again and weigh Iraq's creditworthiness, the possible involvement of Iraqi officialdom in the BNL affair, United States trade and agricultural export interests and foreign policy considerations. This we proceeded to do.

As to the BNL affair, the Department of Agriculture submitted a report which concluded that the evidence which had been developed at that time by the investigations of BNL's activities did not indicate Iraqi wrongdoing with respect to the CCC Program.

Some voiced concerns that the full scope of the BNL situation had not yet been investigated and might ultimately reveal Iraqi involvement and improprieties involving the CCC Program. However, it was recognized that to delay the decision until the conclusion of the full BNL probe would mean the loss of this round of agricultural export sales to Iraq, which wanted the products immediately and would buy them from alternate sources. All agreed that the breaking of the guarantees into two segments offered, from this point of view, a degree of protection against future revelations.

On the creditworthiness issue, it was pointed out that Iraq was not in arrears in its repayments to the CCC and Eximbank and that Iraq had substantial oil reserves as a source of future revenue to service its debt. But Iraq's record with respect to the handling of its financial relations with other creditors was a cause for concern.

We also reviewed the foreign policy considerations. These discussions centered on the importance of the CCC guarantees to the

maintenance of United States relations with Iraq and the harm that terminating the CCC Program would cause to that relationship and to the prospects for achieving our foreign policy objectives in areas where we sought Iraq's cooperation.

Finally, we discussed the importance of the Iraq CCC Program for United States agricultural exports. It was pointed out that Iraq was the 10th largest export market for United States agricultural commodities. Among other things, it accounted for 20 percent of all U.S. rice exports. What was at stake here was the possible loss of \$1 billion in exports if the United States did not provide the proposed credit guarantees. Iraq was ready to move and if we did not move, third countries were willing to fill the orders at the expense of United States exporters.

After a thorough discussion and balancing of the pros and cons of the various aspects of the proposal—creditworthiness, the uncertainties of the BNL situation, and United States foreign policy and agricultural export interests—the consensus of the meeting was to recommend that the CCC's proposed 1990 program for Iraq go forward.

In order to provide some degree of risk protection, the deputies confirmed the two-tranche delivery of the guarantees and also agreed to a number of other conditions for the program which included, first, that senior USDA officials would closely monitor the program.

Second, that the program would be suspended under certain conditions and the USDA would ensure that the Government of Iraq would cooperate fully in investigating any wrongdoing in connection with the program.

Third, that USDA's review of the existing GSM Program had already resulted in installing additional controls to tighten the monitoring and enforcement of its guarantee programs and to raise the probability that any irregularities would be detected at an early stage.

Fourth, for the NAC record, the Departments of State and Agriculture would provide letters confirming the trade, and the agricultural and foreign policy reasons which made it important to proceed with the 1990 CCC Program for Iraq.

And finally, before committing to a second installment under the program, the USDA would send a written report to the NAC detailing: First, the safeguards and controls that it had established in connection with the Iraq Program in particular and the export guarantee programs in general; and second, any developments in the investigations of the BNL situation.

In addition, USDA committed itself to report to the NAC any significant developments with respect to the BNL affair which might have ramifications for the Iraqi Program as soon as they became known.

The NAC revisited the CCC Program for Iraq early in 1990. The NAC Alternates met in February to review what had happened since the deputies meeting and to discuss the release of the second tranche under the program. The Agriculture Department representative reported that, of the \$500 million in guarantee authority allocated for the first tranche of the Iraq program, \$440 million had been committed as of that date.

The group was also informed that Iraq had made a request for release of the second tranche but no action had yet been taken. It was noted that per the agreement reached in the November deputies meeting, USDA was committed to return to the NAC before proceeding with any further guarantees for Iraq.

And as the committee is aware, Mr. Chairman, the second tranche of the 1990 CCC guarantee was never released. Regarding the BNL affair, there was discussion of the various investigations that the U.S. Government agencies were conducting. It was reported that, although indictments in the case were thought to be imminent, no evidence of wrongdoing on the part of the Iraqis with respect to the program had yet been found.

Mr. Chairman, members of the committee, I would like to conclude by repeating my firm view that the NAC reviewed the fiscal year 1990 CCC Guarantee Program for Iraq in a responsible, orderly manner.

One can play the role of Monday morning quarterback and second-guess the NAC recommendation in light of what has transpired since November 1989. But as is often the case in policymaking, by the executive and legislative branches, decisions are made on the basis of imperfect information and without the ability to predict the future.

The agencies involved in the NAC recommendation were diligent in presenting the facts and arguments. So we weighed the pros and cons, provided some extra measures of protection for our interests, and made our decision.

I hope that my presentation, Mr. Chairman, has helped you to understand better the NAC process and how the NAC dealt with the CCC Program for Iraq.

I thank you and I welcome any questions that the committee may have.

The CHAIRMAN. Thank you, sir.

[The prepared statement of Mr. Robson can be found in the appendix.]

The CHAIRMAN. Secretary Eagleburger.

STATEMENT OF LAWRENCE S. EAGLEBURGER, DEPUTY SECRETARY, U.S. DEPARTMENT OF STATE

Mr. EAGLEBURGER. Mr. Chairman, and members of this committee. I plan this morning to do my best to set the record straight on the United States Government's policy toward Iraq during the latter half of the 1980's and in 1990, and to place in context the role of the Commodity Credit Corporation Program. I intend to make clear that the administration followed a prudent policy toward Iraq at the time, including the management of the CCC Program, even though we, and other governments, were unable ultimately to restrain Saddam Hussein.

In explaining U.S. policy, I also plan to address many of the factual and legal misstatements currently being put forth by members of this committee. Quite frankly, the selective disclosure, out of context, of classified documents has led, knowingly or otherwise, to distortions of the record, half-truths, and outright falsehoods, all combined into spurious conspiracy theories and charges of a cover-

up. For those who may be interested in the truth, let me make the following 10 points.

First, neither the Agriculture Department's investigation of the Commodity Credit Corporation Program, nor the United States attorney's investigation of BNL Atlanta has, to date, established diversion to third countries of commodities sold to Iraq or Iraqi misuse of the CCC Program to purchase military weapons.

Second, we have found no indication that the State Department had in November 1989, or has today, specific evidence that such diversions occurred.

Third, neither the criminal indictment handed down in Atlanta in February 1991 nor the May 1992 plea agreement of a United States exporter to Iraq, contain evidence of or allegations that CCC guaranteed commodities for Iraq were diverted to other countries or used for military purposes.

Fourth, approximately 90 percent of the \$5 billion in credit guarantees extended to Iraq between 1983 and 1990 for the purchase of United States agricultural exports was provided prior to fiscal year 1990 and received broad support among Members of the Congress and by American farmers and commodity groups.

Fifth, CCC extended only one tranche of \$500 million in credit guarantees to Iraq in fiscal year 1990. Of this \$500 million, over 20 percent of it did not become effective because of the Gulf war. Moreover, the remaining \$392 million represents an official liability of the Government of Iraq. The U.N. Security Council Resolution 687 provides that Iraq's repudiation of its foreign debts is null and void and demands that Iraq adhere to all of its obligations. The administration intends to assert claims against Iraq for any amounts that the United States Government is required to pay on CCC guarantees.

Sixth, shortly after the U.S. attorney's office in Atlanta initiated its investigation of Banca Nazionale del Lavoro, which I will call BNL from here on, Agriculture reached an agreement with BNL that BNL would not participate in the CCC Program for fiscal year 1990.

Accordingly, BNL was not assigned any of the \$392 million in CCC credit guarantees extended for agricultural exports to Iraq in fiscal year 1990 and will not receive one cent of United States taxpayer money for the payment of claims against those guarantees.

Seventh, during the period that the CCC extended the \$392 million in credit guarantees, Iraq actually made hard currency payments of approximately \$847 million, thus despite concerns about Iraq's creditworthiness, there was a net reduction in CCC's exposure with regard to Iraq of approximately \$455 million.

Eighth, the October 13, 1989 memorandum, to which members of this committee have repeatedly referred to in making certain charges, merely speculates about allegations of Iraq's use of CCC guarantees. Most of the allegations in that memorandum have not, to date, been established.

Ninth, the suggestion that the administration has sought to cover up its policy toward Iraq is simply not true. Few U.S. Government policies have been so carefully and so extensively examined by the Congress and by the media as this one. To this committee, alone, the State Department has provided over 4,000 pages of

documents at a cost of over \$100,000 in employee hours. Other agencies have provided large quantities of documents as well.

Finally, the State Department has been prepared to turn over additional documents. However, in light of the knowing and unauthorized disclosure of classified materials by members of this committee, the administration determined last week, in accordance with its obligations under Executive Order 12356, not to permit further release of documents until it receives appropriate assurances from this committee regarding the storage and protection of such materials. Failing such assurances from the chairman, the administration is prepared to make available appropriate documents to the Speaker of the House, or to Members, or committees that he might designate.

I will now turn to a discussion of United States policy toward Iraq, the role of the CCC Program, and the specific questions posed by this committee.

During Iraq's 8-year conflict with Iran, there was broad bipartisan consensus in this country that an Iraqi defeat at the hands of an extremist Iran would be disastrous for our interests in the region. Many of our allies, as well as the Gulf States themselves, shared this view. Although United States policy on the war was neutral, there was a subtle leaning toward Iraq in public statements as well as in selected other actions, but without any provision of weapons or weapons systems to the Iraqi Government.

With the end of the Iran-Iraq war in the summer of 1988 and by the time President Bush took office, Iraq had emerged as the pre-eminent military power in the Persian Gulf. The administration promptly undertook an extensive review of United States policy in the region, including United States policy toward Iraq. The key issue was whether U.S. interests in the Persian Gulf remained vital in view of the changed strategic environment there, and, if so, whether the existing investment of American power and diplomatic influence in the region reflected that importance.

We concluded that access to Persian Gulf oil and the security of key friendly States in the area were, in fact, vital to United States national security, and that we were committed to defending those interests, hopefully with the support and participation of our friends in the region, Western allies, and Japan.

With regard to Iraq, the administration recognized the difficulty of developing a clear-cut policy. On the one hand, it appeared that Iraq had made a conscious decision to moderate its behavior since we had normalized relations in 1984. Iraq had, for example, reduced its support for terrorist groups and had, in fact, expelled the Abu Nidal organization from its soil.

Moreover, Iraq possessed significant oil reserves, was a major oil producer, and was increasing its supply of oil to this country. Post-war Iraq also appeared seriously interested in economic reconstruction and in expanding commercial ties with the West.

On the other hand, we fully recognize that there were still important issues that stood in the way of close relations. These included Iraq's human rights abuses, its chemical weapons program, our suspicion that Iraq might be developing biological and nuclear weapons, Iraq's efforts to build long-range missiles, and its involvement in Lebanon.

Still, Iraqi membership in the Arab Cooperation Council, alongside close American friends such as Egypt and Jordan, appeared to offer the prospect of moderating Iraqi behavior. We also hoped that Iraq would play a helpful role, or at least not play an unhelpful role, in the Middle East peace process.

Recognizing these competing concerns, the administration considered three major options in dealing with a post-war Iraq. First: we could expand our relations and try to embrace the Iraqis; second, we could maintain our slow and steady course, seeking to probe, test, and encourage the Iraqis while being wary of their intentions; or, third, we could seek to isolate the Iraqis by punishing them for behavior we did not condone.

Given the unpredictability of Saddam's behavior and the uncertainty about his regional aspirations, we rejected the first option of expanding relations rapidly. We also recognized that we could not effectively isolate Iraq by acting unilaterally and that there would be no support from either our European allies or our friends in the Arab world for confrontation with Iraq. The third option, therefore, offered us little leverage over Iraqi behavior while potentially undercutting our broader interests in the Persian Gulf. We thus determined that these broader interests, including continued access to the region's oil, stability of friendly area States, and deterrence of Soviet intervention and influence, required a policy that sought, if possible, to engage Iraq and to offer the Iraqis a mix of incentives and disincentives, but we did so without any illusions.

In adopting this policy, we decided to make clear to the Iraqi leadership that any use of chemical or biological weapons—I repeat that, any use of chemical or biological weapons—or violations of IAEA nuclear safeguards, would lead to economic and political sanctions, for which we would seek the broadest possible support from our allies and friends.

We also agreed that Iraq's human rights record and its meddling in internal affairs of others would continue to weigh heavily on our policy. At the same time, we would encourage Iraq to play a constructive role in the peace process, and we agreed to support the efforts of American companies to participate in Iraq's economic reconstruction and in the development of its energy sector.

In short, the administration concluded that the evolution of normal relations with Iraq, something that would require more constructive Iraqi behavior in a number of areas, was in the United States national interest. Toward this end, we determined that it was worth trying to build on our successful diplomatic cooperation with Iraq during its war with Iran, and attempting to develop a modest economic relationship.

However, our policy also included maintaining a capable military presence nearby, providing arms and other support to friendly States in the region, and expanding our dialog with the Soviet Union.

For a period of time, we saw movement, some movement by Iraq in the right direction on several matters. For example, Kurds were allowed to farm again and they received compensation for seized property. Iraq agreed to pay personal injury claims relating to the crew of the U.S.S. *Stark*.

The Federal Aviation Administration advice on airport security was welcomed by Baghdad Airport.

The CHAIRMAN. Mr. Secretary, I hate to interrupt you. I believe you have a little bit more there to complete your statement than we have time to go answer the roll. We have just about 5 minutes to allow the Members to go.

Mr. EAGLEBURGER. Why don't I finish this paragraph, Mr. Chairman, and wait until you come back to complete my statement.

The CHAIRMAN. That is fine.

Mr. EAGLEBURGER. FAA advice on airport security was welcomed by Baghdad Airport. A first, ever, DEA visit to Iraq led to agreement to cooperate against narcotics trafficking, and we had opened a new cultural center in Baghdad that was successfully reaching out to ordinary Iraqis. Moreover, at a time when Iraq was forcing other Western creditors to accept bilateral debt rescheduling, it continued to repay United States guaranteed loans.

[Recess.]

The CHAIRMAN. Our committee will please come to order and the Chair will ask that the doors be closed so that we can resume. Members are on their way back and there is, I believe, another rule coming up.

I believe there is another rule on the House floor but, Mr. Secretary, we apologize for the break in, but we recognize you now to pick up where you left off.

Mr. EAGLEBURGER. You will recall, Mr. Chairman, I ended by saying there had been some positive signs with regard to Iraq. Soon, however, a number of Iraqi statements and actions demonstrated that Iraq was not prepared to adopt a more responsible approach to relations with its neighbors or ourselves.

As a result, we began to adjust even our modest efforts downward. We heavily criticized Iraq's human rights record before the U.N. Human Rights Commission and in the State Department's human rights country report. We also expelled an Iraqi U.N. diplomat for involvement in a murder plot.

In March 1990, United States customs, working with the British, successfully interdicted an attempt to smuggle capacitors with possible missile and nuclear applications into Iraq. We also consulted with the British about the confiscation of materials for Iraq's development of the so-called super gun. And we continued against Iraq a strict policy of denial of sales of weapons and weapons systems and intensified our efforts with other countries to tighten existing export controls focusing on proliferation concerns.

What little remained of the United States-Iraqi relationship came to an abrupt end with Iraq's brutal invasion and occupation of Kuwait in August 1990. As it turned out, the fact that the United States had followed a measured policy toward Iraq rather than having sought unilaterally to isolate the Iraqis proved to be a critical factor in our ability to assemble a coalition which included Arab countries to expel Saddam from Kuwait and ultimately to devastate his military capabilities.

The Commodity Credit Corporation of the Department of Agriculture had first made available credit guarantees in connection with export sales to Iraq in 1983, shortly before we resumed diplomatic relations with the Iraqis in 1984.

As Under Secretary Crowder will explain in greater detail, the CCC Program is designed to assist U.S. agricultural exporters and producers by developing foreign markets for U.S. commodities. It is, in the first instance, an export promotion and market development program.

The CCC guarantee covers the risk of nonpayment by a foreign bank under a letter of credit opened to finance the purchase of U.S. agricultural exports. Iraq was one of more than 40 countries participating in this program which served to provide benefits for over 80 different types of agricultural commodities.

In many respects, our trade balance with Iraq during the latter half of the 1980's was governed by the level of United States guaranteed financing available to Iraq. As United States imports of Iraqi oil rapidly expanded toward an estimated \$2.5 billion by 1990, the CCC Program helped lessen a growing trade deficit with Iraq. Throughout the period in question, and despite its economic difficulties, Iraq maintained a record of consistently and fully meeting financial obligations incurred under the CCC Program.

Iraq requested \$1.03 billion in CCC credit guarantees for the fiscal year 1990. As the administration began to consider this request, it learned that the United States attorney in Atlanta was investigating the Atlanta branch of BNL for allegedly conducting a clandestine gray book loan operation to Iraq.

While much of the money involved in BNL's loan operation was not directly related to the CCC Program, approximately \$720 million of BNL Atlanta's loan portfolio consisted of assigned obligations that were backed by CCC export credit guarantees.

Accordingly, as Under Secretary Crowder will explain, investigators with Agriculture's office of the inspector general began assisting the U.S. attorney's investigation in early September 1989.

The administration took the BNL allegations seriously, even though at the time no wrongdoing on the part of Iraq had been established. Because of the allegations, the administration initially postponed any decision on Iraq's request for CCC guarantees for fiscal year 1990. Moreover, in Secretary Baker's October 6 meeting with then-Iraq Foreign Minister Tariq Aziz, the Secretary raised the BNL issue, emphasizing the importance of Iraqi cooperation with this investigation and seeking assurances from the government of Iraq that it would assist in the investigation. Aziz gave these assurances and Iraq did cooperate when a team from the Department of Agriculture traveled to Baghdad several months later.

In November 1989, the National Advisory Council on International Monetary and Financial Policies met at a senior level to consider Iraq's CCC request. As Deputy Secretary Robson has described, there was a full exchange on all relevant points regarding the CCC Program for Iraq.

The Deputy Secretary of Agriculture specifically reported that the BNL investigation had only resulted to date in allegations of violations. He further reported that Agriculture's office of the inspector general had stated in writing that there was no evidentiary basis for withholding approval of new CCC guarantees for Iraq.

In addition to discussion of the BNL investigation, representatives at the NAC meeting also discussed Iraq's creditworthiness, the importance of Iraq as an agricultural export market and the

administration's efforts to improve the bilateral relationship. I might note as well that, at this time, Members of Congress, along with various agricultural trade interests, were urging the administration to provide the full amount of credit guarantees requested by Iraq.

After a careful balancing of the risks and benefits, the NAC supported the Agriculture Department's recommendation to establish a tiered approach to the CCC Program rather than to grant Iraq's request outright. Under this approach, Agriculture decided to extend a first tranche of \$500 million in credit guarantees, with additional guarantees for the year to depend on the results of Agriculture's own administrative review, as well as the investigations by its office of the inspector general and the U.S. attorney in Atlanta. The administration indicated to the Iraqis that the CCC Program would be terminated if abuses were discovered.

The Agriculture Department continued to monitor the BNL investigation and consistently received word from its office of the inspector general that there was no reason to recommend that the CCC Program not go forward. At the same time, however, Agriculture's own administrative review of Iraq's CCC Program indicated a pattern of unexpectedly high prices for certain commodities. Accordingly, by February 1990, without investigations yet completed, the administration deferred a decision on the second tranche of \$500 million of credit guarantees for Iraq.

During this time, the State Department cooperated with the Justice Department in the Atlanta investigation. This is reflected in correspondence between the two Departments in March 1990 in which the State Department offered to work with Justice attorneys to develop a plan to interview Iraqi officials in connection with the BNL investigation.

The State Department also facilitated Agriculture's administrative review of the CCC Program for Iraq. In mid-April 1990, a delegation from Agriculture, with a representative from the State Department's Office of the Legal Advisor, traveled to Baghdad for approximately 4 days to meet with the Iraqis and to review their records regarding CCC guaranteed purchases.

The officials were granted access to Iraqi records relating to these purchases. Agriculture issued a report in May on the results of the visit. The report did, in fact, find violations by Iraq of CCC Program requirements, but did not find diversions of commodities purchased under the program.

After the Agriculture Department had released its report, the administration chose not to proceed with the second tranche of CCC credit guarantees for Iraq. Indeed, the administration never granted any further credit guarantees to Iraq beyond those announced in November 1989.

When the United States imposed sanctions against Iraq in August 1990, there were approximately \$1.9 billion in outstanding credit guarantees. Of course, the major portion of those obligations had accumulated during the 1980's. In that regard, it is worth noting that all sanctions legislation against Iraq that the Congress had proposed in the first half of 1990, except for the Inouye-Kasten bill, exempted the CCC Program from whatever sanctions might be imposed.

It should also be noted that, of the \$500 million in CCC credit guarantees authorized for fiscal year 1990, only about \$392 million actually became effective prior to the imposition of sanctions. Moreover, during the same period, Iraq actually made hard currency payments under the CCC Program of approximately \$847 million. Thus, despite concerns about Iraq's creditworthiness, there was a net reduction in CCC's exposure of about \$455 million.

As I indicated earlier, in light of the affirmation in U.N. Security Council Resolution 687 of Iraq's continued liability for outstanding debts, as well as our own freezing of Iraqi assets, the administration intends to assert claims against Iraq for debts owed to the United States.

Within this context, let me turn to the committee's questions on the fiscal year 1990 CCC Program. As noted above, the State Department, acting in accordance with administration policy, viewed the CCC Program as one of the positive elements in our effort to develop a constructive bilateral relationship with Iraq.

The State Department believed in November 1989 that continuation of CCC-supported trade offered the possibility of expanding and improving that bilateral relationship. This would hopefully have had the additional benefit of moderating Iraq's conduct in areas of concern to us, such as human rights. In April 1990, however, the State Department no longer supported additional CCC credit guarantees for Iraq.

On the issue of creditworthiness, the State Department viewed Iraq's record of repayment of CCC obligations as excellent, even though there were minor delays from time to time. Indeed, during the period in question, Iraq actually made payments to CCC of more than twice the amount it received in new guarantees.

As for the BNL scandal, that issue, of course, had considerable influence on the course of events. It contributed to the initial delay in considering Iraq's request for \$1.03 billion in CCC credit guarantees. It led Secretary Baker to request of Foreign Minister Aziz that Iraq cooperate in the investigation. And it contributed to the decision to apply a tiered approach to Iraq's CCC request, granting only a first tranche of \$500 million while the investigation proceeded.

Finally, the administration remained highly critical of Iraq's human rights record, even though consideration of that record did not specifically affect the State Department's views on the CCC Program.

Mr. Chairman, that is the end of my remarks in response to the questions that you posed. However, I feel compelled in conclusion to comment on the nature of this inquiry. As I prepared for this hearing, I could not but reflect on how the conduct of our government has changed since I began my career with the State Department more than 30 years ago.

We now seem to work in an environment of distrust rather than trust, of confrontation rather than cooperation, of accusation rather than fair inquiry. What has been done by the selective disclosure, out of context, of classified documents, by the distortions of truth, and by the raising of innuendos where no facts exist to support them is to make exceedingly difficult our ability to engage in the deliberative process necessary to formulate policy.

No longer can responsible officials voice differences of opinion, provide candid advice to their superiors, or engage in discussion and debate on an issue without the constant worry that at some point in the future, someone will seem to condemn and vilify them for having done no more than perform their duties honestly and to the best of their abilities. I submit that such a situation is in no one's interest and is a disservice to the good governance of this Nation.

Mr. Chairman, I had intended to end there and reserve until later when I expected I would receive comments on my own peccadillos, a brief statement trying to refute those. But since Mr. Sanders has chosen to raise the issue before, I had a chance to give my statement, I ask your patience for another 5 minutes.

Over the course of the past several months, on at least eight occasions, the chairman has made a series of charges against me on the floor of the House of Representatives. On April 28, for example, he mounted an extensive attack on my personal conduct, both in the private sector while I served as president of Kissinger Associates and in the public sector as Deputy Secretary of State.

There is absolutely no substantive basis for these allegations. The charges against me would misrepresent the facts with regard to my work at Kissinger Associates and at the State Department and misrepresent the law with regard to the ethical requirements to which I am subject.

First, Mr. Chairman, you have stated, and I quote, that I have "past ties to BNL" from my tenure at Kissinger Associates. You have further implied that I was also connected to BNL as a result of my having served on the board of directors of LBS Bank.

These assertions about my relationship to BNL are wrong. While at Kissinger Associates, on the board of BNL, or elsewhere, I do not recall having done any substantive work for BNL. Although the records at Kissinger Associates indicate that I may have attended one luncheon in 1986 at which two representatives of BNL Rome were present, I do not recall this luncheon nor any substantive meetings, conversations, or other contacts with anyone from BNL.

Second, Mr. Chairman, you have stated, and I quote, that I "played a key role in the Bush administration's handling of the BNL scandal." That is wrong. The correct facts, based on a review of the record, as well as my own recollection, are that I did not play a role in the Bush administration's handling of the BNL scandal. That matter has been handled within the administration primarily by the Justice Department. To the degree that the State Department has been consulted, it has been responsibly handled by others, other than that of the Deputy Secretary.

Third, Mr. Chairman, you have stated, and I quote, that "while at the State Department, Mr. Eagleburger was fully aware of the link between BNL and the CCC Program for Iraq and the importance of the BNL scandal." You have sought to support this charge by alleging my knowledge of a memorandum dated October 13, 1989, which speculates, and I say speculates, about allegations in the BNL scandal.

You have further stated, and I quote, that I "lobbied the deputies at OMB and Treasury," and that I "lobbied the USDA and other agencies." All of that is wrong. The correct facts, based on a review

of the record, as well as my own recollection, are that I was not involved in the State Department's policymaking on the CCC Program or Iraq or on matters related to BNL.

The only occasion in which I recall fulfilling any departmental role with regard to the CCC Program for Iraq was in November 1989 when, in my capacity as acting Secretary of State, I spoke with and signed a letter to Treasury Secretary Robson reiterating—I say reiterating—the State Department's already established position with regard to CCC credits for Iraq. The letter did not involve any policy decision with regard to BNL or the BNL scandal. I do not recall ever having any contact with officials at either OMB or Agriculture on that subject, nor have I been able to find any documentation in the Department's files that would contradict that recollection. And I do not recall ever seeing, prior to my preparation for this hearing, the October 13 memorandum to which you have repeatedly referred, a knowledge of which you have attributed to me.

Fourth, Mr. Chairman, you have stated, and I quote, that the most notorious Eagleburger involvement in the BNL prosecution was related to the investigation by the U.S. attorney in Atlanta of the Iraqis involved in the BNL scandal. You have then sought to illustrate my so-called involvement by referring to a series of cables between the Department and U.S. Embassies in Rome and Baghdad. Your assertion and your illustrations are wrong. The correct facts, based on a review of the record as well as my own recollection, are that I have played no role in matters related to the BNL prosecution, and I played no role in the preparation, oversight, or review of any cables you have used as illustrations. Again, I do not recall even being aware of those cables prior to my preparation for this hearing, and State Department records do not indicate otherwise.

It is, of course, well known throughout the U.S. Government, and among those who deal with—

The CHAIRMAN. Mr. Secretary, regrettably, it looks like you will have more than 1½ minutes and that is what we have to go over to record a vote. So if you will suspend, we will pick up where you left off. You are on record.

Mr. EAGLEBURGER. Thank you, Mr. Chairman.

[Recess.]

The CHAIRMAN. The committee will please come to order.

Mr. Secretary.

Mr. EAGLEBURGER. Thank you, Mr. Chairman. I am almost through.

It is, of course, well known throughout the U.S. Government and among those who deal with the State Department that it is standard operating procedure for the last name of the Secretary or acting Secretary to appear at the end of every cable sent out by the Department. The cables in question to which you referred were sent out when I was Acting Secretary and, therefore, bear my name. But so far as I can determine, I did not see them until I began to prepare for this hearing.

Finally, Mr. Chairman, you have criticized me, and I quote, because I "did not recuse myself from the State Department handling of the BNL scandal." Your criticism is wrong and your understand-

ing of the law with regard to ethics in government is wrong. As was made clear at my confirmation hearing in March 1989, my recusal undertaking at the State Department fully complies with what is required by the law and by the Office of Government Ethics. Moreover, the ethics laws do not require a government official to recuse himself from an issue or matter involving companies with which he has had no substantive involvement. And, as I indicated, to the best of my knowledge and belief, I had no substantive involvement with BNL matters when I was in the private sector.

Accordingly, there was no legal basis for me to recuse myself from matters specifically involving BNL. Nonetheless, Mr. Chairman, as I stated at my confirmation hearing, and as is recorded in the *Congressional Record* at that time, I agreed voluntarily, on a case-by-case basis and in an effort to remove any and all appearances of a conflict of interest, to recuse myself, for 1 year after appointment, from any matter specifically involving any client of Kissinger Associates during the last 2 years of my employment there, including clients for whom I had not provided any services.

Thus, in accordance with this voluntary commitment and contrary to the chairman's repeated assertions, I had, in fact, determined to recuse myself at the State Department from any matters specifically involving BNL, and I would have exercised that recusal if any such matters had come before me. But none did.

And finally, Mr. Chairman, now Mr. Sanders has dredged up a new charge, which is, that because I was involved in recommending that the Export-Import Bank be authorized to grant loans to Iraq, then went to work for Kissinger Associates and was on the board of a bank, and BNL signed up as a client for Kissinger Associates, that I, obviously, have violated some other ethical rule.

I can only say that since the action with regard to the Export-Import Bank took place in 1982, and I didn't join Kissinger Associates for a number of years thereafter, and went on the board of a bank that wasn't even in existence in 1982 and had no knowledge whatsoever of BNL in 1982, there is a clairvoyance implied here that I simply cannot claim benefit of.

There is no relationship whatsoever between my recommendation, my action in 1982 to recommend that the Export-Import Bank be authorized to give loans to Iraq, a matter which, by the way, would not have been determined solely by the Under Secretary for Political Affairs and anything I did in Kissinger Associates or with BNL or with LBS thereafter.

Mr. Chairman, as you may have noticed, I get slightly exercised on this issue, but let me say to you, sir, I do appreciate your courtesy in letting me get through all of this and I am grateful for it. Thank you, sir.

[The prepared statement of Mr. Eagleburger can be found in the appendix.]

The CHAIRMAN. Well, thank you. I am sorry for the interruptions.

Mr. EAGLEBURGER. That is all right.

The CHAIRMAN. We had no idea when we scheduled this day's hearing we would have that many.

Mr. Kelley.

STATEMENT OF EDWARD W. KELLEY, JR., MEMBER, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. KELLEY. Thank you, Mr. Chairman. I may provide a bit of decompression here for a couple of minutes.

I am pleased to appear today to comment on the Federal Reserve's participation in the deliberations by the National Advisory Council on International Monetary and Financial Policies, which we call NAC, of the fiscal year 1990 Commodity Credit Corporation, or CCC Program for Iraq.

As you know, the NAC has been assigned by Congress the responsibility to assist in formulating U.S. positions in various international financial institutions and to evaluate the policies and practices of U.S. Government agencies that make, or participate in making, foreign loans, or provide various forms of credit guarantees as part of U.S. foreign lending programs. The Federal Reserve was designated a member of the NAC under the Bretton Woods Agreements Act of 1945 and has participated in its deliberations since.

The NAC is an advisory body. The principal function of the seven members of the NAC is to review proposed transactions, programs, and policy issues related to those institutions—both national and multinational in which the United States is a member—that are involved in making foreign loans.

The diversity of interests, perspectives, and expertise represented by the member agencies of the NAC allows a thorough airing of divergent views on issues that come before it. In most cases, a unanimity of views among member agencies is attained. On those occasions when no consensus is reached, it may indicate a fundamental difference on a particular aspect of the lending program under consideration, often reflecting the particular vantage point and institutional focus of the member agencies of the NAC.

In evaluating lending proposals and programs presented to the NAC, the Federal Reserve draws upon its financial perspective and expertise. The Fed's principal contributions to the NAC process over time have been its ability to assess objectively the financial and economic soundness of proposals brought before the NAC and to share this expertise with other member agencies.

In light of this specialized focus of the Federal Reserve in NAC deliberations, for those proposals that involve major considerations other than economic and financial issues where the Federal Reserve has special expertise—such as where foreign policy or human rights issues are of overriding importance—the practice of the Federal Reserve in NAC deliberations is not to take a position on those matters and to abstain in the formal NAC decisionmaking process.

With regard to the Federal Reserve's position concerning the extension of CCC export credit sales guarantees for Iraq, even prior to the fiscal year 1990 request for such guarantees, the Federal Reserve had become concerned about Iraq's creditworthiness and about the size of the CCC Export Credit Sales Guarantee Programs that were being proposed for Iraq by the United States Department of Agriculture. The Federal Reserve, therefore, was only willing to consider favorably considerably scaled-down programs of such credit guarantees to Iraq.

In considering the request for \$1 billion in additional CCC export credit sales guarantees for fiscal year 1990, the Federal Reserve reservations were based on continued concerns about Iraq's creditworthiness at that time. The growing external indebtedness of Iraq and questions about Iraq's ability and willingness to service this debt led to a growing Federal Reserve uneasiness in approving large, new CCC export credit sales guarantees for that country.

The Federal Reserve also noted Iraq's spotty debt servicing records with other bilateral official creditors, including incidents of unilateral and selective reschedulings.

Finally, the Federal Reserve questioned the appropriateness of allocating one-fifth of the CCC's fiscal year 1990 budget to one country, and of the CCC's having such a disproportionate share of the total CCC credits outstanding to one country.

The unfolding BNL case in the summer of 1989 reinforced the Federal Reserve's reservations and opposition about approving additional CCC export credit sales guarantees for Iraq. The revelations of the BNL case, in fact, led the NAC to postpone a scheduled consideration of the fiscal year 1990 program of CCC export credit sales guarantees for Iraq.

Only limited details concerning allegations concerning the connection between the BNL case and the CCC Program to Iraq were known at the time that the NAC was considering the proposal for additional export sales guarantees.

However, given the Federal Reserve's ongoing and growing concern about Iraq's creditworthiness, even the limited allegations of linkages between the BNL case and the CCC Export Credit Sales Guarantee Program provided, in our view, an additional reason to be cautious about further extensions of such guarantees to Iraq.

The Federal Reserve's reservations and opposition related to the fiscal year 1990 CCC Program for Iraq, therefore, were based on its evaluation of Iraq's creditworthiness, which was reinforced by the unfolding BNL case.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Kelley can be found in the appendix.]

The CHAIRMAN. Thank you, very much, Mr. Kelley. We deeply appreciate the fact you let us have your written testimony. We had the time to look it over and you have summed up very succinctly. We appreciate it.

Mr. Crowder.

STATEMENT OF RICHARD T. CROWDER, UNDER SECRETARY OF INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S. DEPARTMENT OF AGRICULTURE

Mr. CROWDER. Thank you very much, Mr. Chairman.

I would like to read my statement. It is somewhat lengthy and I apologize for not getting it out until late yesterday afternoon. But since, from some of the comments this morning, some individuals have not had a chance to read it, I think it would be useful to read the whole statement if it is satisfactory with you.

I do appreciate the opportunity to appear before you today to discuss both the factors and the process that led to the allocation in

November 1989 of fiscal year 1990 credit guarantees in connection with the sales of United States agricultural commodities to Iraq, as well as events and decisions which resulted in our subsequent decision, in May 1990, to deny any additional GSM credit guarantees for that purpose.

I will discuss the impact of those decisions on the investigation launched in August, 1989, by the U.S. attorney for the Northern District of Georgia into alleged fraudulent lending by several employees of the Atlanta agency of the BNL.

As you know, other officials and I have testified before Congress on these issues a number of times, and I welcome the opportunity to do so again.

Mr. Chairman, I first assumed my position as Under Secretary of Agriculture in April 1989, and so do not have personal knowledge about events or decisions made prior to that time. However, I was directly involved in the events and decisions surrounding the allocations of GSM credit guarantees for fiscal year 1990, as I will describe in my statement today. At the conclusion of the statement, I will be happy to answer any questions that you or members of the committee may have regarding events during my tenure.

Just a couple of comments on the GSM-102 Program, the Intermediate Export Credit Program, and the GSM-103 Program, which are administered by the Commodity Credit Corporation. These programs are intended to build and maintain commercial markets abroad for U.S. agricultural products. Under these programs, CCC issues a credit guarantee to a U.S. exporter, and I think that is important.

The credit guarantee is issued to the U.S. exporter who has made a sale of agricultural commodities to a purchaser in a designated market. The purchaser must arrange for a letter of credit to effect payment. The CCC credit guarantee protects the exporter or his assignee against a default by the bank in the foreign country issuing the letter of credit.

The issuance of the letter of credit does not require any initial expenditure by the government; rather the guarantee represents a promise to the U.S. exporter by CCC that, in the event that the exporter is not paid under the letter of credit, CCC will pay the exporter and will be subrogated to the exporter's right to collect payments from the defaulting foreign bank. Under credit reform procedures, USDA does report the estimated subsidy cost of the programs which is treated as a current expenditure for budget purposes.

CCC, as I have noted, issues its credit guarantees to a U.S. agriculture exporter. This guarantee enables the exporter to assign its rights under the letter of credit to a financial institution located in the United States, which agrees to finance the sales transaction on a deferred payment term.

It is important to note first that the CCC assumes no financial risk with respect to a bank such as BNL that takes assignment of a CCC guarantee; and second, that CCC has no programmatic relationship with the U.S. financial institutions that take assignments of the guarantees, nor does it have the authority to serve as a bank regulator. The CCC credit guarantee is, in essence, commercial

paper which can be sold by the exporter to a U.S. financial institution.

The GSM Program, under which guarantees are issued in connection with sales having payment terms not to exceed 3 years, is the largest single export program for U.S. agricultural products, stimulating bank financing for more than 10,000 commercial shipments per year. Since 1980, approximately \$37 billion in agricultural products have been exported to 44 countries through the GSM-102 Program.

GSM-103, under which guarantees are issued in connection with sales having payment terms of over 3 and up to 10 years, a smaller—about \$1.5 billion program—is still an important program.

Now, in both the 1985 and 1990 farm legislation, Congress mandated levels for the GSM-102 and GSM-103 Programs. For fiscal year 1990, the year we will be discussing today, Congress mandated that CCC make available a minimum of \$5 billion in GSM-102 credit guarantees and a maximum of \$1 billion in GSM-103 credit guarantees.

Although, as I mentioned earlier in my remarks, I was not present at the Department in the early 1980's when credit guarantees were first made available in connection with sales to Iraq, I believe that history and record of the program in this regard are well known.

In your *Congressional Record* statement of February 4, 1991, Mr. Chairman, you inserted a chart showing the increase in GSM Program allocations in connection with sales to Iraq from an initial \$364 million in guarantees announced in 1983 to more than \$1 billion annually for 1988 and 1989. This chart accurately reflects the increases in GSM credit guaranteed sales over that period. As your list indicates, Mr. Chairman, total GSM credit guarantees to Iraq for the 1983-1990 periods exceeded \$5 billion.

The support of Members of Congress and American farmers and American commodity groups demonstrate that the development of the Iraqi market under the GSM Programs during the 1980's was very important to the United States agricultural economy, including high-value commodities. Iraq ultimately became the second largest participant in the program, exceeded only by Mexico. Iraq became the 12th largest market for United States agricultural exports and the single largest market for United States rice.

My initial involvement, Mr. Chairman, in the issues regarding GSM allocations with respect to Iraq came in late summer of 1989. And here, Mr. Chairman, I begin to lay out a series of events that will follow through exactly what the decisions were, what factors we were considering, and the situation we were facing at the time we were making the decision.

Now, as you know, because a new fiscal year begins in October it is customary for CCC to finalize its plans for allocating available GSM credit guarantees among the various participant countries in late summer. As part of this process, we often engage in consultations and negotiations with potential participant countries. In the case of Iraq, which engaged in central government purchasing, this was regularly done.

In August 1989, we were considering a fiscal year 1990 allocation of credit guarantees in connection with sales to Iraq at the same

level as the prior 2 years, approximately \$1 billion. CCC's total exposure at that time in connection with previously issued credit guarantees for sales to Iraq was approximately \$2.3 billion.

While this is a substantial amount, in our judgment, a sizable program could be justified. First, because of its substantial food import needs and dependence on outside sources for approximately 65 to 70 percent of its food and feedstuffs, Iraq presented a long-term market potential. Iraq had maintained a solid payment record without default since 1983 and had repayments of \$1 billion scheduled for fiscal year 1990. Information suggested that it had adequate resources to pay its CCC guaranteed debt, and, indeed, it always treated this as preferred debt.

It was about the same time, on August 4, 1989, that the Federal Bureau of Investigation, working in conjunction with the U.S. attorney for the Northern District of Georgia, served its initial search warrant for the Atlanta agency of BNL, launching what has become known as the BNL investigation.

We were not initially informed of this investigation and did not become aware of its potential implications for CCC until early September 1989. Our records indicate that USDA's regional office of inspector general in Atlanta was asked to participate in the investigation at the end of August. Their notice of case opening on August 31, 1989, came to the attention of Washington program officials several days later.

At this same time, USDA received a request for a meeting from officials and lawyers representing BNL, and this meeting was set for September 6, 1989. Although I did not personally attend this meeting, it was reported to me later that BNL representatives met with officials of both CCC and our office of General Counsel to inform USDA that the investigation was under way.

USDA officials were told that the investigation involved alleged fraud on the bank resulting from unauthorized loans made by rogue bank officials; that BNL's headquarters in Rome had replaced prior Atlanta management with officials from BNL's Rome and New York offices; and that BNL wanted to confirm from CCC's records the precise amount of guarantees which U.S. agricultural exporters had assigned to BNL as part of the new management's reconciliation exercise. CCC's records indicated that, at that time, BNL held about \$720 million in assigned guarantees.

I would note, Mr. Chairman, I think this has been pointed out earlier, that BNL took no further assignments of CCC-guaranteed obligations after August 1989. And because of the uncertainties surrounding the BNL investigation, representatives of the BNL agreed with Department officials in October 1989 not to accept any further assignments, and, in fact, never have done so. Thus, BNL took no assignment in connection with the guarantees allocated for fiscal year 1990.

Now, several days after that meeting, Mr. Chairman, about September 8, 1989, USDA's wood products division received a written complaint from two exporters of wood products that Iraqi purchasers were allegedly pressuring exporters to provide additional services or goods at no charge to the purchasers. These allegations concerning after-sales services were promptly reported to USDA's

office of inspector general, which was working with the U.S. attorney in Atlanta.

We subsequently made inquiries with the OIG about the BNL investigation, and were informed that the OIG investigators working on the case in Atlanta were operating under grand jury rules and that the investigation was at a very preliminary stage. However, we were told that an investigator from Atlanta would come to Washington in early October and would provide a briefing on developments there.

Now, by the end of September, USDA had completed its preparation for the overall fiscal year 1990 GSM Program. This involved a process by which CCC developed a list of participant countries based on information obtained through the trade, from attaches of the Foreign Agricultural Service posted abroad, and from our trading partners interested in the program.

Using country-risk analysis, market information, and USDA assessment of long-term market potential, CCC allocated available guarantees for the fiscal year among specified participant countries and established commodity specific lines of credit guarantees. In September 1989, Commodity Credit Corporation contemplated an allocation of credit guarantees for fiscal year 1990 in connection with sales to Iraq at the \$1 billion level.

On October 3, USDA made a presentation at a staff level meeting of the National Advisory Council on International Monetary and Financial Policies, the NAC, recommending the \$1 billion allocation. USDA is not a NAC member, but USDA representatives regularly attend NAC meetings to discuss proposed export initiatives under our export credit guarantee programs, both GSM-102, GSM-103 and our foreign concessional sales programs under Title I of Public Law 480.

NAC is a seven-member interagency review group chaired by the Department of the Treasury, with other members including State, Commerce, Federal Reserve, the Office of USTR, the Export-Import Bank, and the Agency for International Development.

As the name implies, and has been pointed out this morning, the NAC is an advisory group and its reviews and recommendations are not binding on USDA's decisionmaking. Nevertheless, we take NAC advice very seriously and consider the NAC process to be important and a complementary process to our internal analysis.

At the October 3 meeting, based on the previous work we had done, USDA's proposal to continue the program allocation in connection with sales to Iraq at \$1 billion met with opposition from other agencies, including the Treasury Department, which suggested a \$400 million allocation. USDA took this under advisement and did not announce any program allocation in connection with sales to Iraq pending further consultation. However, it was USDA's views at that time, based on our own market development and risk assessments, that an overall \$1 billion allocation for Iraq was merited.

Now, taking into account the input from NAC, and the risk exposure advantages to CCC of tranching any additional allocation, we subsequently made an initial offer to Iraq of \$400 million. Iraq rejected this offer.

Then on October 5, Mr. Art Wade, an investigator with the Atlanta office of USDA's office of inspector general, arrived in Washington. Mr. Wade first met with CCC Program officials and subsequently with me to provide some information about the nature of the investigation in Atlanta.

Mr. Wade was constrained by grand jury rules from disclosing particulars of the Atlanta investigation, but he did confirm that the investigation centered on an alleged "gray book" loan scheme perpetrated by former BNL officials.

Mr. Wade told USDA officials that the investigation was at a very, very early stage and that only preliminary evidence had been developed. He indicated that the investigation might expand to other issues, including possible BNL loans to Iraq for military supplies, the possibility of bribes to Iraqi officials, and the possibility, in the case of agricultural sales, that shipments might have been diverted to other countries and sold or bartered for other goods.

When asked about the diversion issue, Mr. Wade indicated that, although there was no specific evidence to support this suggestion of diversion, it was an area that the investigation would explore.

I would note, Mr. Chairman, that, to our knowledge, after more than 2½ years of intensive investigation in the BNL matter, there has been no hard evidence, to date, of diversion of U.S. commodities or any linking of CCC sales to military goods or supplies.

And, Mr. Chairman, at that time, when we specifically asked whether Mr. Wade had any information indicating that USDA should not proceed to extend fiscal year 1990 credit guarantees in connection with sales to Iraq, Mr. Wade said no.

Now, these initial conversations with Mr. Wade suggested a number of potential theories that might be investigated, but revealed that no evidence had been developed to support any of these theories that might be investigated. It was this lack of clarity that caused me to institute our own inquiry into the situation, a review which involved several stages and that took several months to complete and which eventually resulted in the publication of USDA's report on May 21, 1990.

I might add, Mr. Chairman, that as you have reviewed the documents and so forth that you have sent up, we have sent up, you will note throughout those documents that program integrity was a centerpiece of all decisions that we made, and I think you will see as we go through the testimony, we adhered to that principle throughout as the documents we have supplied suggest.

Now, initially, I decided we needed to know more about the nature of the investigation so that I could have a basis to determine the level at which to extend further export credit guarantees in connection with sales to Iraq. I want to be clear with you, Mr. Chairman, about what the administrative review was intended to accomplish.

Our purpose in pursuing this inquiry was to determine whether there was any evidence to suggest involvement by Iraq or Iraqi officials in program violations that would alter our judgment about continuation of the availability of export credit guarantees in connection with the sale of United States agricultural commodities to Iraq. It was not a criminal investigation.

The process of criminal investigation and potential prosecution was already under way in Atlanta and was being conducted by the U.S. attorney and USDA's office of inspector general, agencies with jurisdiction over criminal investigation armed with the attendant authority to issue subpoenas and to compel testimony before a grand jury. Our access to information was much more limited and our goal was much more specific.

I also want to point out, Mr. Chairman, that our review was an evolving process and that as we proceeded, we were constantly in touch with our office of inspector general.

Now, the situation we faced at that point is easy to describe. It could also be easy to second-guess at this stage of the game given what has happened, but let me describe the situation.

We had arrived at the beginning of a new fiscal year and had been requested by the Iraqis to continue extending GSM credit guarantees at the \$1 billion level which had been in effect each of the prior 2 fiscal years. Indeed, as you have pointed out, there was a strong expression of support for such a program from both Members of Congress and from various agricultural sectors. We did not want to abandon a \$1 billion market that was important to U.S. farmers and exporters. At the same time, USDA would not continue the program if there were program violations.

After the meeting with Mr. Wade, I asked Larry McElvain, the Director of FAS, CCC Operations Division, and Kevin Brosch of our general counsel's office to go to Atlanta to pursue the matter further. We didn't wait for other investigations. Mr. McElvain and Mr. Brosch traveled to Atlanta on October 11 and 12, 1989, and met with Gale McKenzie, the assistant U.S. attorney in charge of the BNL investigation, as well as with three investigators from USDA/OIG-Atlanta who were working with her. They also had the opportunity to visit the bank and to have a preliminary look at some of the bank records which concerned CCC-guaranteed transactions.

When they returned from Atlanta, I met with Mr. McElvain and Mr. Brosch and they reported to me that, insofar as CCC transactions were concerned, it appeared that the BNL investigation was going to focus on several issues: The alleged high prices of United States sales to Iraq; the possibility of diversion of goods; the possibility that United States exporters might have provided after-sales services to Iraq in connection with CCC-guaranteed sales; and the possibility that such sales might have been connected in some way with the provision of military supplies.

Mr. McElvain and Mr. Brosch also reported that the investigation into these issues appeared, at that time, to be based on hypothesis of the investigators rather than on concrete evidence. For example, Mr. McElvain and Mr. Brosch had asked what evidence had been adduced which suggested abnormally high prices. The investigators were able to point to only one sale of vegetable oil. When that sale was reviewed, it appeared that the sale was not of bulk vegetable oil, but rather of refined and tinned vegetable oil, and that the higher than usual price was associated with the substantial value added by the refining, tinning, and labeling process as well as the higher shipping costs.

They also asked what evidence was available with respect to the diversion of goods, and were told that investigation had uncovered no evidence of diversion or of any connection of CCC-guaranteed sales with military supplies thus far, but that these theories would be explored.

During that meeting, Mr. Brosch also reported that, although the investigators had suggested the possibility of higher than usual commodity prices, they did not appear to have been made with comparisons to any standard commodity price series or have used any market price information. He suggested we obtain standard price series from USDA's commodity divisions and return to Atlanta to do a more thorough job of screening of the bank records and I instructed him to do so.

On October 18 and 19, Mr. Brosch rushed to Atlanta with another USDA attorney and they spent 2 days reviewing files. When he returned to Washington, Mr. Brosch reported that he had been able to find ships' bills of lading in the files associated with the various GSM-guaranteed transactions; apparently, the bank kept separate files for the financing documents and the shipping documents, and the investigators had previously only reviewed the financing files.

He also reported that he had been able to do a preliminary review of the high price issues, and that several prices reviewed appeared to be \$10 to \$20 per ton more than would have been expected based on market price data for the time period. The files revealed nothing with respect to after-sales service or military issues.

Mr. Brosch also reported that the somewhat higher prices he had observed were connected with the sales transactions by a U.S.-based exporter known as Entrade International, and I would refer to it as Entrade from here forward.

Mr. Brosch reported Entrade appeared to be a principal focus of the investigation, and that he had been told a former executive assistant within BNL Atlanta had, a year earlier or so, moved to New York to take an executive position within Entrade. I directed Mr. Brosch to do a further review of Entrade transactions, and Mr. Brosch contacted attorneys for Entrade in New York to make arrangements to go to New York and review the company's records. This had to be coordinated with the office of U.S. attorney in Atlanta because Entrade was also the subject of a grand jury subpoena.

Mr. Brosch formally requested access to Entrade's records on October 23, 1989, in a letter to Entrade lawyers. However, because the grand jury investigation took precedence, Mr. Brosch was unable to review these records until late November.

Our early hope, Mr. Chairman, was that the BNL investigation in Atlanta would proceed quickly and that the uncertainties and hypotheses would quickly be resolved. During their first meeting in Atlanta, Mr. Brosch and Mr. McElvain were told that the U.S. attorney hoped to have initial indictments returned by the grand jury by November 15, 1989. As you know, Mr. Chairman, that did not happen. The investigation, apparently much more complex than initially anticipated, did not result in initial indictments until February 28, 1991, approximately 16 months later.

As you are no doubt aware from your own reading of the indictments, even today there has been no formal allegations or apparent evidence adduced with respect to many of the rumors which began circulating in October 1989. For example, the indictments in the BNL investigation contain no allegations of diversion of commodities nor any allegations that CCC-guaranteed sales were in any way connected with the provision of military supplies.

Now we are back to the NAC meeting on November 3, 1989, Mr. Chairman, and the staff group met again to consider a modification of USDA's October 3 proposal. Rather than proposing to announce a \$1 billion allocation of export credit guarantees, we proposed a two-tranche allocation for fiscal year 1990, with an initial \$500 million to be announced immediately, and a second \$500 million tranche to be held in reserve, with its release contingent upon a positive resolution of the BNL investigation in Atlanta.

Because several agencies requested that the issue be raised at a higher policy level, this proposal was made again at November 8 in a NAC deputies meeting, at which time other agencies indicated they could support the proposal.

I believed then, Mr. Chairman, and I continue to believe today, that this decision was both cautious and prudent for several reasons. First, as I have discussed, we simply did not have any information that substantiated any of the rumored allegations out of the Atlanta investigation. We wanted to be certain, however, that there wasn't evidence being developed in the Atlanta investigation which we simply did not know about because of grand jury constraints.

We met on several occasions with representatives of the inspector general about this matter and asked whether they would recommend against our proceeding. We were always told no.

On November 8, 1989, prior to the NAC meeting of that day, inspector general Leon Snead provided a memorandum to the Deputy Secretary in which he stated, and I quote: "On Friday we were contacted by OMB concerning our investigation of the BNL and the Department's impending decision to extend credit guarantees to Iraq. OMB expressed concern over giving credit guarantees to Iraq while this investigation is in process. We, OIG, informed them that we have no evidence to date that would lead us to recommend that the Department should not extend the guarantees."

In addition, Mr. Chairman, we reasonably expected that the extension of the \$500 million in credit guarantees in connection with sales to Iraq should not result in any additional financial exposure on the part of the United States, and, in fact, would result in a net improvement in CCC's exposure.

As I mentioned earlier, Mr. Chairman, CCC had extended credit guarantees in connection with sales to Iraq beginning in 1983, and had allocated \$1 billion in credit guarantees to Iraq in fiscal year 1988 and 1989. Iraq's scheduled repayments of previously undertaken obligations during fiscal year 1990 was about \$1 billion. The extension of \$500 million in new guarantees would, therefore, be made during the period in which Iraq would be repaying substantially more than that amount. And that is precisely what happened.

Up until the time Iraq invaded Kuwait on August 1, 1990, resulting in the collapse of its diplomatic and financial relationships with the West, Iraq paid back CCC guaranteed obligations totaling more than \$847 million. Of the \$500 million in guarantees, only \$392 million had become effective on August 2, 1990. As a result, CCC's net exposure in connection with Iraqi-related guarantees declined by approximately \$445 million during the fiscal year 1990.

Mr. Chairman, this is an important point that has not been properly reported. We specifically took this likely reduction in net exposure into account when we made our determination to propose the initial \$500 million tranche.

On November 11-13, 1989, the general sales manager of Foreign Agriculture Service, Mr. Paul Dickerson, led a USDA team to Iraq for consultations. Mr. Dickerson reported to me that the Iraqis were extremely upset with the USDA proposal, but we refused to do any more until there was better information.

Ultimately, the parties were never able to reach agreement on anything more than the first \$500 million tranche, and on November 15, 1989, USDA formally announced the availability of that \$500 million tranche of credit guarantees.

I should repeat here, Mr. Chairman, that BNL did not take assignment of any of these fiscal year 1990 guarantees.

Now, we understood, however, that eventually there would be renewed pressure for a second \$500 million tranche. Indications we were receiving from Atlanta were that the investigation was going more slowly than anticipated and that there might not be indictments by the time Iraq requested the additional line of credit guarantees.

Beginning in the last week of November and concluding in the week before Christmas, Mr. Brosch made several trips to New York to review Entrade records. In total, he and another USDA attorney spent 12 staff days on this project. Mr. Brosch completed a preliminary analysis of his findings in early January 1990 and reported to me.

The initial reason that we focused at that point on Entrade, as I mentioned previously, was that Entrade appeared to be a principal focus of the BNL investigation. However, Entrade also provided us with a unique opportunity to get a better picture of the high prices issue.

Entrade was what is known in the trade as a table-topper. This means that Entrade was a small exporter that held no inventory of its own, did not warehouse or hold commodities, and dealt only in paper. It engaged in what we call back-to-back transactions—that is, Entrade bought a specific amount of commodity from a supplier in the United States and on the same day, or within several days, of selling that same supply to Iraq. Thus, we could correctly compare Entrade sale price and its acquisition costs for each transaction with Iraq. This type of comparison is not possible with larger commodity traders which are constantly buying and selling commodities and whose acquisition costs cannot be directly linked to any particular sale.

Entrade had made approximately 52 GSM guaranteed sales to Iraq during the period 1985 to 1989. Mr. Brosch was able to locate and review company records regarding those sales. His analysis in-

licated that the approximate profits obtained by Entrade in connection with the GSM-guaranteed sales of wheat to Iraq were within the range of what would be considered typical of the marketplace—approximately \$2 to \$4 a ton. However, Entrade's approximate profits during one period between October 1985 and February 1987 in connection with sales of other commodities were much higher than expected—for corn, \$16 to \$20 per ton; for rice, \$7 to \$20 per ton; and for sugar, \$15 to \$40 per ton.

In addition, Mr. Brosch found several instances in which there had been a shift, after the time of sale, of the allocation of price between commodity and freight, indicating that Entrade had obtained a CCC guarantee for a higher value than program regulations would allow. Telex traffic between Iraq and Entrade indicated that the Iraqi purchasing authorities not only knew of this shift, but were complicitous in it. After 1987, however, no such high-profit transactions appear to have occurred.

Although we initially suspected that the abnormally high prices obtained by Entrade for its sales to Iraq of sugar, rice, and corn might have indicated some form of sweetheart deal between Entrade and the Iraqi purchasing authorities, further analysis by Mr. Brosch suggested otherwise. CCC's records of sales prices registered by other exporters of the same commodities to Iraq during the same time period that the prices obtained by Entrade did not differ significantly from the prices obtained by those other exporters.

Based upon the information we had been able to gather at that time, I decided not to proceed with any additional credit guarantees for Iraq until I was to obtain some explanation for the high prices and for the apparent registration of several sales at values higher than regulations permitted.

The CHAIRMAN. Mr. Crowder, will you yield to me at this point? I have been notified that Mr. Kelley has a time problem. I believe you have a board meeting at 2, and so I was going to interrupt to inquire if Members present had questions they would like to direct to Mr. Kelley so that we could find out just about how long Mr. Kelley could remain here and allow us to go as fast as we could and record our votes. We do have notice of another recorded vote.

About what time would you have to leave the hearing room?

Mr. KELLEY. Mr. Chairman, I appreciate your courtesy very much. There is a Board meeting at 2, and I suppose, to make that Board meeting, I would have to leave at quarter of two or so, but I do want to be at the service of the committee. I think that is more important and I am happy to stay here at your pleasure.

The CHAIRMAN. Let me ask this. How many Members intend to ask a question here and now of Mr. Kelley?

Mr. FRANK. The only questions I ever ask anybody at the Federal Reserve they can't answer, so I won't bother.

The CHAIRMAN. I ask unanimous consent that all Members, including myself, submit questions in writing to you, Mr. Kelley, to answer for the record.

The only comment I had about your statement, which was very good, and it did reflect your expression, was that you had some grave reservations as to the creditworthiness.

What I am interested in now, since you can say that I am the progenitor of the International Banking Act of 1978, which went

back to hearings that we had in my district in 1975 in my own backyard and which led to the first revelations of what later became the S&L scandals and the indictment and conviction of two individuals.

My concern is totally there; that is, from our standpoint on our committee, has there been any change, has any change occurred in order that the Federal Reserve could have a greater presence in the deliberations of NAC in such things as these guaranteed, credit guarantee extensions? Has anything changed?

Mr. KELLEY. No, sir, I do not believe there has been any change in the role of the Federal Reserve in the NAC process.

The CHAIRMAN. All right, sir, because I will elaborate on this later. There is initial concern and it has to do with the Fed's ability to properly take charge of our monetary program.

You know, not all the banks belong to the Federal Reserve. We are going to go into the offshore business, which is very, very dangerous and precarious, as you know, and is tangential to these hearings.

Did I hear you say, Mr. Schumer, you had a question.

Mr. SCHUMER. I had one question of the gentleman. It can wait till we get back.

The CHAIRMAN. I hate to hold him. He has been very patient, why don't you go on ahead and ask him.

Mr. SCHUMER. My one question, Mr. Kelley, is, we have been told that in 1990, I guess it was in 1989, that when the Justice Department, the FBI called the Federal Reserve Board in to just look at what was happening in BNL, the informal conclusion of the examiners at the Fed was that the kind of scam here was so sophisticated and so complicated it could not have been done simply by the bank in Atlanta. Would you comment on that? Simply by the officials in the Atlanta branch of BNL, that it had to go beyond that. They didn't say where it did.

Mr. KELLEY. It certainly was remarkable, Mr. Schumer, and because it was done entirely off the books and in most cases, as I understand it, completely off the premises of the Atlanta office.

As to the necessary complicity of any other parties, I don't think I would be able to shed any light on that.

Mr. SCHUMER. I didn't think that, but the sophistication and everything else that happened, given it was off the books, would make it seem that these characters themselves were not alone in doing this; is that a fair bet?

Mr. KELLEY. I don't think that is unreasonable.

Mr. SCHUMER. Did you voice that to the Justice—the FBI and the Justice Department?

Mr. KELLEY. I do not know whether that point was made at that time or not. I have not personally heard it made.

Mr. SCHUMER. OK. Thank you very much.

The CHAIRMAN. Would the gentleman yield?

Mr. SCHUMER. Certainly, Mr. Chairman.

The CHAIRMAN. The gentleman has been on the forefront of this. You see, by 1990, we were struggling with the Banking bill, plus the enforcement provisions in which we had to refer to the Judiciary Committee. We had great consultation with the Federal Reserve and there were no laws that the Federal Reserve could exert

in behalf of such things as bank embezzlement and the like, I think Mr. Schumer in the Judiciary Committee took that over, but was referred from us.

This is what concerns us, that at this point in time we have a continuing problem that has to do with the safety and soundness of our banking system, and that is our main charge.

So with that, if there are no other questions—

Mr. VENTO. Mr. Chairman, if the gentleman would yield just briefly.

The CHAIRMAN. Sure.

Mr. VENTO. Mr. Kelley, I think that one of the most critical points was this 1990 episode and, in fact, at one time you testified that revelations of the BNL case led the NAC to postpone consideration of the 1990 proposal of CCC export sales credits and guarantees for Iraq.

Can you tell us, was there a resolution of that issue? What was the dialog between the Federal Reserve Board and other officials in the administration, including the Department of State and others that were involved?

Mr. KELLEY. I was not a party to that discussion, so I can't describe it. It was done at the staff level, and I believe that it was in September of that year and involved a supplementary proposal to the current year that was still running at that time, and that was rejected. It was not made.

I think it involved \$30 million and it was largely done, as I understand it, on the grounds of the fact this BNL scandal was beginning to unfold, and as a consequence, that particular supplement did not get made.

Mr. VENTO. Well, Mr. Chairman, I think we could repeat that question along the way any time these creditworthy decisions were made and I hope we get more definitive information about what the dialog and what the logic was in terms of these actions.

The CHAIRMAN. I agree.

I did want to thank you, Mr. Kelley, for your offer to stay here, even though I know you have that pressing commitment. So thank you very much and we will be in communication.

And, Mr. Crowder, again, forgive us but we will allow the Members a chance to go record their vote and be back as soon as possible.

[Recess.]

The CHAIRMAN. The committee will resume.

Mr. Crowder, we hated very much to interrupt you. Do you have an estimate of about how much you have remaining?

Mr. CROWDER. You want the whole story or part of the story? No, Mr. Chairman, I have got about 10 or 12 minutes, I would say.

The CHAIRMAN. I wonder if it would be possible for you to summarize the remainder and we will put it in the record exactly as you have it printed. But if it is at all possible and you could summarize that, it will give us a chance to proceed with the other witnesses. We still have another panel after this one.

Mr. CROWDER. Yes, sir, I will try to do that, although I think we are getting into the point where we have the final decisions coming up and I think it is important we all understand clearly the process that we have gone through.

And basically where we have gotten to in the sequence I was talking about is everything we did in Atlanta, in our office here, in New York, and we have evidence that suggests we need some more information before we go forward with the program.

At this stage of the game, I think it is very important to know that we have decided that regardless of what the Iraqis come back with, regardless of what the trade says, regardless of what anyone says, that until we get that information we are not going forward.

Now, that information is in all the documents that we have submitted, but I am not sure it is clear to all the Members who may not have had a chance to read that completely or clear to the press. So I will try to leave out some sentences, but I want to make sure that the full process in terms of where we are and where we go from here to the ultimate decision on May 21, if you would indulge me that much, I will try to be quicker than I have been.

At this stage of the game, we need additional information. And I asked our people to convey this to Iraqi representatives in Washington and that we need more information from Iraq.

I also want to make the following point, Mr. Chairman. At that time we received a complaint from an exporter, complaining that the Iraqi Government was pressuring for the exporters to pay for a stamp tax. We rejected this and sent a cable to Iraq suggesting that this was not acceptable.

Now, I think it is also important to understand, as it was important to understand where we were in October 1989, that we are now in January-February 1990, that we were receiving increased industry and congressional pressures to release the second tranche of credit guarantees. And, in fact, the Iraqi Embassy here was orchestrating a campaign to get us to release those guarantees, that on March 27, 1990 I met with Iraq's Ambassador in my office, told him such pressure tactics would not work and renewed my demand for the visit of our administrative review team to Baghdad.

Now, initially, they rejected this. But when it became apparent we meant what we said, they agreed to the visit, and the trip occurred during April 16-23, 1990. That team consisted of Mr. Brosch, Mr. McElvain, and Mr. Dickerson from our shop, and a lawyer from the State Department's legal advisory.

When the team returned they gave me a preliminary report. I think it is important to understand what was in this report; that the high price level obtained by the sellers into the Iraqi market appeared to be the result of Iraq's highly inefficient and surprisingly unsophisticated tendering process. I will not elaborate on that, but I want to go to the second area where there are conclusions reached by the administrative review team in other areas that were more problematic.

The team was able to confirm that on several occasions an Iraqi purchaser had agreed to reallocate portions of the sales price between the commodity value which could be covered under the regulations, and the freight value which would not be covered for those particular transactions, resulting in a higher value of the shipment being guaranteed for CCC than was permissible under the regulations.

Iraq had no adequate explanation for its participation in this scheme, and had aided Entrade by causing letters of credit to be issued to support this allocation.

In addition, although Iraq had previously acknowledged that it had requested after-sales service from the exporters, it refused to provide the administrative review team with the comprehensive list of instances in which such after-sales service were provided.

And although Iraq pledged not to request either after-sales service or the payment of stamp taxes in the future, the administrative review team reported to me that the Iraqi Government had been uncooperative in identifying past instances where these practices may have occurred.

Finally, the administrative review team reported it had been unable to find evidence to indicate that commodities destined for Iraq had been diverted. As you are no doubt aware, Mr. Chairman, during the 1980's, Iraq was engaged in an 8-year war with Iran and had no ocean port through which it could receive shipments. So commodities shipped from the United States were landed at one of four ports, and carried overland in 25- or 50-ton trucks through the desert into Iraq.

Thus, the transportation of a boatload of wheat—perhaps 25,000 metric tons—required overland transportation to Iraq by means of 500 to 1,000 truckloads. During this period, Iraq was receiving literally hundreds of such shiploads.

The administrative review team asked to review shipment documents and was shown examples of individual truck manifests, entry registers, and warehouseman's logs. For a given shipment of commodities, there were hundreds of individual manifests and dozens of registers of logs, all recorded in Arabic. Our team, Mr. Chairman, concluded that it simply did not have the resources or ability to conduct extensive translation and audit of the thousands of documents that would be involved.

Now, at this stage of the game, I instructed the team to prepare a report. We met again on May 7. It was at that meeting that I determined I would make a public announcement disclosing the results of the administrative review and my determination not to proceed on any further credit guarantees in connection with sales to Iraq until the conclusion of the BNL investigation.

I instructed Mr. Brosch to complete the report and to prepare a memorandum for my signature to the inspector general asking his office to, and I quote, institute an investigation to determine whether there have been any program abuses and violations of GSM regulations with regard to Iraq. Our proposed report and announcement was provided to the U.S. attorney in Atlanta and to USDA's office of inspector general and was circulated within the administration to other interested agencies.

The final report was released on May 21, 1990, and I might say here, Mr. Chairman, it is not my testimony, but I believe the date was May 17, prior to release, that I briefed the House Agricultural members and staff on the decision that had been made at that time because of their interest in it.

Now, in your statement on February 4, 1991, you made a concise and accurate statement as to the results of the administrative review, that CCC investigated several irregularities which included:

Unusually high prices obtained by exporters in connection with 102 sales to Iraq involving BNL; shifting of some freight and freight financing costs to the Credit Commodity Corporation, thus lowering the amount of guarantee authority under the 102 Programs that could be used by others; utilization of after-sales services in violation of CCC regulations; and Iraq requiring exporters to pay a stamp tax, a policy that is supposed to be prohibited under the 102 Program.

Now, what do we know as a result of the investigation into the BNL matter that has occurred since we concluded our administrative review? The answer is a little more than we knew in May 1990 when I decided to shut Iraqi purchases off from any additional credit guarantees, although after November 1989, no additional line of credit guarantees was made available.

The grand jury in Atlanta has issued a 347-count indictment and that was issued on February 28, 1991. That indictment contains 29 counts which are styled "Fraud on USDA." A careful reading of that indictment, however, reveals that almost every count involves an allegation of wire fraud or mail fraud as part of a scheme by BNL officials to issue letters of credit in excess of Atlanta's branch's permitted lending limits.

This indictment contains no allegations relating to diversion of commodities, after-sales service, or military aid. There is one allegation relating to unusually high commodity prices, and that allegation, Mr. Chairman, appears to be related to a corn shipment that was initially identified as part of the administrative review.

Indeed, only a week ago, the United States attorney presented to the court a plea agreement concerning Entrade and that plea describes transfers of money not to Iraqis but rather to the former manager of BNL's Atlanta agency, his father and the Turk in charge of Entrade. To the extent there was an attempt to defraud CCC by improperly increasing the guaranteed commodity value in one corn transaction, the inflated value was paid by the purchaser.

Consequently, CCC had no loss on this particular transaction. In addition, Entrade has represented that it did not sell or export any missiles or other military goods and that, to its knowledge, all CCC guaranteed exports were agricultural products.

As I mentioned, I sent a memo on May 8, 1990 to our inspector general asking for a thorough investigation of the GSM Program with Iraq. Subsequently, the OIG conducted an audit of more than \$879 million of GSM guarantees and found after-sales service of \$379,000.

In addition, another audit, a separate audit of CCC-guaranteed tobacco sales revealed that seven exporters paid after-sales service of \$1.5 million to Iraq. The OIG report contains no evidence of diversion of goods. The OIG report also does not show any connection between GSM guaranteed sales and military supplies to Iraq.

The GSM Program was also the subject of an investigation by the General Accounting Office. The GAO has already testified before Congress that it has no evidence to support allegations of diversions or of any connection between GSM guarantees and provision of military supplies.

On this note, Mr. Chairman, I would like to conclude my formal testimony, but I hope what we have made clear today is what deci-

sions were involved in the granting of the fiscal year 1990 credit guarantees to Iraq and what led us to terminate that program in May 1990.

As you know, Mr. Chairman, we did not treat the situation as business as usual. Our approach was, instead, cautious and prudent. We were frequently in contact with our OIG and through that office, with the U.S. attorney's office in Atlanta, regarding whether they had evidence to suggest that the program should not proceed.

We, in fact, Mr. Chairman, in February 1990, or January 1990 when we were considering moving forward, we asked the OIG again if there was evidence we should not proceed and, even at that time, they did not have evidence, but we still did not proceed. We initiated our own administrative review so we did not have to await the outcome of the Atlanta investigation.

I hope that we have explained why we instituted administrative review, what that administrative review was intended to accomplish, and what it did accomplish. We also implemented a number of program changes to improve the overall operation of the program.

As you have noted, Mr. Chairman, and pointed out, and I quote, in the past several years, Congress and USDA have made changes to improve the operation of the CCC Program. Mr. Chairman, we are continually working to improve the operation of all of our programs and welcome input from Congress and others.

Finally, Mr. Chairman, I hope that you and other members of the committee appreciate that our approach enabled us to sell \$392 million in U.S. agricultural commodities while the net exposure to CCC declined by more than \$450 million during fiscal year 1990.

I remain convinced, Mr. Chairman, that the decisions by the Department of Agriculture were prudent, responsible, and sensible. And I will be glad to respond to any questions of the committee.

[The prepared statement of Mr. Crowder can be found in the appendix.]

The CHAIRMAN. Thank you, Mr. Crowder.

It has been brought to my attention that BNL is presently pressuring USDA for payment on the amount outstanding which, if I understand, is in the range of about \$350 million. Has BNL made any recent demand that you are aware of?

Mr. CROWDER. We have had a demand recently from the lawyers representing BNL and that has been turned over to our General Counsel, and I think to the Department of Justice, Mr. Chairman.

The CHAIRMAN. Did they stipulate the amount? Is that that \$350 million or thereabouts? Do you know?

Mr. CROWDER. Mr. Chairman, I don't recall exactly what was in there, but if you want me to, I could provide it for—I am told it is about \$360 million, Mr. Chairman.

The CHAIRMAN. OK. Do you happen to know what the position will be of the Department on paying BNL Rome?

Mr. CROWDER. The position of the Department will be determined based on the results of General Counsel and Justice, Mr. Chairman.

The CHAIRMAN. Do you know or do you have any knowledge as to whether or not the USDA pressed an independent, on its own in-

vestigation of BNL Rome and its knowledge of the CCC Program that was being undertaken by the BNL agency in Atlanta?

Mr. CROWDER. Mr. Chairman, I don't believe that we have prepared an investigation of BNL Rome. We don't have banking jurisdiction and so forth and our risk is with the bank issuing, the credit guarantee, and not with the bank here.

The CHAIRMAN. Well, that is true, and it may be that way and that is what I am trying to ascertain just what the processes are, and what they have been. But what I wanted to know, is, if is any information you have or that has come to your attention that the Department had undertaken, on its own independent basis on investigating the participation of BNL Rome, as far as the allegations as to fraud on the part of the agency in dealing with the letters of credit in Atlanta?

Mr. CROWDER. By the agency you mean what, Mr. Chairman?

The CHAIRMAN. The agency bank, I beg your pardon.

Mr. CROWDER. Mr. Chairman, Commodity Credit Corporation [CCC] and that program administrative review has not. Whether our inspector general has, as part of their investigation which I am not privy to, I don't know.

The CHAIRMAN. All right, sir. Mr. Robson, in your written testimony pertaining to that section of Iraq's creditworthiness, you state that Iraq's record in supervising its United States-guaranteed debts was excellent, and I believe Secretary Eagleburger sort of affirmed the creditworthiness of records at the time.

Now, that statement, I respectfully say, is most patently untrue; it is incorrect. First of all, Iraq had a terrible debt servicing record. The Export-Import Bank suspended Iraq in 1984 and then again for 18 months in 1986 and 1987 for nonpayment of its debts.

In fact, numerous nations, including Italy, Sweden, Japan, France, Switzerland, and Belgium all had suspended Iraq during 1989 for nonpayment of its debts. In addition, the Export-Import Bank country risk reports indicated that Iraq was not creditworthy in 1989. This the reports indicate.

The Treasury Department's own new and unpaid report indicates that each year Iraq is several hundred thousand dollars in arrears on its CCC debts. The Banking Committee's Export-Import Bank hearings already establish the fact that Iraq was not creditworthy in 1989 and 1990.

Why then did the NAC ignore payment problems at the Export-Import Bank and Iraqi nonpayments to other countries while at the same time approved the \$1 billion CCC Program for Iraq?

Mr. ROBSON. I think that the premise, Mr. Chairman, that we ignored the other problems, or other issues surrounding the creditworthiness of Iraq, is not correct. To the contrary, I think those questions were addressed very directly. As a matter of fact, at the time of the NAC meeting in November 1989, the Eximbank stated that had not taken Iraq off of cover, even though there were some minor arrears at that point.

Second, while as I said in my testimony, there was evidence of Iraq having done some bilateral rescheduling with other creditors, the fact was that Iraq's payments to the CCC under their CCC credits were current and that was taken into account. The fact that it had other problems was noted. The fact that it had substantial oil

reserves as a source of foreign exchange for the future was noted and assessed as we made the decision.

In fact, as Under Secretary Crowder has pointed out, Iraq paid us \$800 million after the meeting in 1989, some \$450 million more than the amount of credit that was extended to them.

The CHAIRMAN. Well, sir, I think you still insist that Iraq's creditworthiness was unblemished. Well, let me follow through and I ask unanimous consent—

Mr. ROBSON. May I just say one thing?

The CHAIRMAN. Certainly.

Mr. ROBSON. The people who get these credits don't show up with gold-plated balance sheets. These credits are given to countries that need credits or else they wouldn't need the program. So it is quite common to see a country that has had a credit problem at some point. The question is: Do we think we will get our money back? And in this case, had not the war intervened, who knows, they might still be current.

The CHAIRMAN. My time has expired and I do want to adhere to it, but I am going to ask for unanimous consent to pursue this. Because the question that logically follows then, Secretary, is that at the October 3, 1989 NAC meeting, the Treasury Department—and I praised it in the *Congressional Record*—was against the \$1 billion CCC Program for Iraq, but then in the November meeting, the Treasury Department supports the \$1 billion program.

What made the Treasury Department change its position?

Mr. ROBSON. Actually, Mr. Chairman, in the earlier meetings, the Treasury Department had expressed its reservations as to the amount of the program, not as to the extension of any program to Iraq. And, in fact, what happened in the November meeting was that we broke the program into two hunks, which in some respects met that concern. There was a time period during which Iraq's creditworthiness could be further examined before the full amount of the credit was extended.

The CHAIRMAN. Well, sir, let me say this respectfully. I don't think you are responsive, but I don't want to press this to the exclusion of others. Mr. Wylie.

Mr. WYLIE. Thank you very much.

Mr. Eagleburger, on page 13 of your testimony, you refer to a meeting in mid-April 1990, a delegation from Agriculture with representatives from the State Department, Office of Legal Affairs and then you say the officials were granted access to Iraqi records relating to these problems—or purchases, Agriculture issued a report and the report did, in fact, find violations by Iraq of CCC Program requirements but did not find the diversions of commodities purchased under the program.

I am not sure that I understand the significance of that, of the difference there. Was that finding what led to the sanction a little later on?

Mr. EAGLEBURGER. No, Mr. Wylie, and I think that Mr. Crowder can answer the question in more detail than I can. The point is that the team that went to Baghdad to do the review of the records did find that there were some irregularities, and again, it was an Agriculture team. I think Mr. Crowder could be more specific about the problems.

Mr. WYLIE. All right.

Mr. CROWDER. As I indicated in my testimony, Congressman, there were a couple of problems. One was that the Iraqis were not as forthcoming on the issue of after-sales service as we thought they should have been. Second, we did find that they had been party to the reallocation between freight and commodity value, and the other things I enumerated in my testimony.

The comment on the diversion of commodities, as you recall, that was a—one of the initial theories that was first brought up in September and October 1989, and as I indicated in the reviews that we made here, in the reviews that we made there, the reviews that inspector general and the reviews that GAO has made has found no evidence of that, and that was just responding to that one specific point of the original hypotheses about it.

Mr. WYLIE. I have got it in mind now. I have been supplied here with a BNL chronology, it says, by the members of the majority staff. And on page 13 of that it said, in a memo from Ambassador Glaspie, it says: Word has reached the Embassy here in Baghdad that Agriculture has decided to turn down the second tranche of CCC credits. Then it goes on to say, from a foreign policy perspective, the decision is difficult to justify. Coming as it does on the heels of the Dole delegation and my visit. Was this the same meeting that was referred to there on page 13, or was that a different time, do you know?

Mr. CROWDER. I am not sure. Not having access to what you have there, I am not sure.

Mr. WYLIE. I can check that out, but I want to put it in the less partisan flavor on this prewar relationship with Iraq, if I may. Because at that meeting, which was attended by Mr.—or Senator Howard Metzenbaum, he said to Saddam Hussein, I know you are a man of peace, and I guess a lot of people were sort of misled up until about that time. I don't need to comment further on that.

Mr. EAGLEBURGER. What was the date on that, Mr. Wylie?

Mr. WYLIE. It says it was in May and it doesn't have a specific date and that is confusing to me because right after that, there is May 16 and just before that, all of them are specific dates except that. But it just says in May 1990. Before that is April 26, April 5, April 18, so on. So I was trying to pin down when that meeting might have taken place and this other information came out of that same meeting.

Mr. EAGLEBURGER. I think it was—I was told from behind, it was probably on May 18 or 19, 1990.

Mr. WYLIE. OK. Now, Mr. Eagleburger, you spoke to this conclusion—you spoke to this question in the conclusion of your statement a little while ago, but I want to approach it from a little different way and ask you, you and the President's national security advisor, Brent Scowcroft, have had a long and distinguished career in public service and you personally have served in foreign service as Ambassador to Yugoslavia and held other numerous posts in the State Department and White House.

It has been suggested that both you and Mr. Scowcroft interceded in policy matters on Iraq for the benefit of former clients from Kissinger & Associates. I heard you speak to that a little while ago in some of your conclusion there but, in effect, you have been ac-

cused of putting personal interests above your own country's interests.

How do you respond to that allegation?

Mr. EAGLEBURGER. Well, I tried, Mr. Wylie, in the supplementary statement I gave to describe my activities and describe where I have a difference of view with regard to those activities.

Mr. WYLIE. Maybe you have answered it sufficiently but—

Mr. EAGLEBURGER. I got a little excited when I was giving it. What can I say? I don't—it is not fun to be called dishonest, I guess. And let me just make one other point, which is: I can't speak for General Scowcroft. He has got to speak for himself, you know; I can't speak for him.

I know what I did. I would say to you, however, speaking totally personally, that in my judgment, I do not know anybody who is more honorable, more decent, and more honest than Brent Scowcroft and I feel badly for him for having been painted with the same brush.

Mr. WYLIE. Thank you.

Mr. Robson, when the NAC was making its final recommendation to approve the first \$500 million CCC guarantee for Iraq, did anyone on the NAC voice disapproval?

Mr. ROBSON. No. I went around the room at the meeting and asked each participant their opinion. Some had reservations, but no one stood up and said I am opposed to this and I don't want to let it get through.

Mr. WYLIE. All right, thank you. I think my time has expired.

The CHAIRMAN. Mr. Vento.

Mr. VENTO. Mr. Chairman, I came in later. I yield to my colleague. He came in before me.

Mr. SCHUMER. Thank you, Mr. Chairman. First, I would like to cite from the specifics here. I would like to ask Mr. Eagleburger a question and I, by the way, think you have been an outstanding public servant. But I would like to know what in the *Congressional Record* that Chairman Gonzalez disclosed has compromised our security in any way. I would like to know specifics.

Mr. EAGLEBURGER. I can't at this stage answer that question for you, Mr. Schumer. I have to go through each of the documents and I have, to be honest with you, not gone through all of the *Congressional Record*. Can I make a more general comment or do you want me to limit it to that?

Mr. SCHUMER. Let me just say, I have heard the general comments.

Mr. EAGLEBURGER. No, you haven't heard it.

Mr. SCHUMER. We will hear it in a minute, but let me preface it by telling you that many of us think that the idea of classified documents is used to cover the behinds of people in the bureaucracy who make mistakes. That does damage to the concept of classified documents and I think it isn't necessarily a risk for everybody.

Maybe this was just a policy mistake that everyone, you know, in your words, might be second-guessing in hindsight. But that doesn't give a right for the document to be classified.

So to convince this gentleman who is going to have to play a role on whether we should have an independent counsel look at everything, you are going to have to show me specifics of what was so

terrible of putting those documents in the record, because I know a lot of good came from it. It sure helped educate me as to what went on more than anybody who has been at this table or anyone else in the administration has done.

So now, if you would, go ahead with your general comment. But I do say, it bolsters my view that the classification issue, the classified document issue is being used to protect people rather than protect information when you can't point to a specific.

Mr. EAGLEBURGER. I tried to say to you, I have not gone through each and every one of the documents that have been in the *Congressional Record*, and I would be happy to do it and get back to you with a specific answer, but I have a different issue I would like to raise which—

Mr. SCHUMER. Mr. Chairman, I would just like unanimous consent that the record be kept open so Mr. Eagleburger could point to us what specifics had to be compromised. Thank you.

The CHAIRMAN. The record has been open and in fact that is why I expressed my gratitude that they accepted my invitation. Some of the others we invited did not accept the invitations to. So yes, of course, the record is open.

Mr. SCHUMER. I won't add the other ad, it begins with an "N".

Mr. EAGLEBURGER. Anyway, I would be glad to respond specifically and quickly, but let me make the general point which I would have made if Congressman Frank had been here as well. We can argue about whether classification is used, as you so delicately put it, to cover people's behinds and I would concede to you I am sure there are times when that is the case.

It seems to me, with regard to this particular issue, however, and I don't often agree with Sam Gejdenson, but I am in the shocking position of agreeing with him this time.

Mr. SCHUMER. You are for the Sea Wolf also?

Mr. EAGLEBURGER. Not if I want to keep my job, I am not, no. But there is a method by which to come to the administration and see whether we are prepared to declassify these documents. He yesterday announced that he is writing letters to the various Cabinet officers asking for the declassification of certain documents, and we are going to look at those—at that request as soon as we get it in the State Department, I can assure you.

There are, after all, Congressman, 535 Members of the Congress, some thousands of—tens of thousands of staff members up here on the Hill and I have to assume, on the basis of where we are now with regard to your question and with regard to what this committee has done, that the assumption is that any of the 535 Members of the Congress, if they judge things to be worthy of being declassified and put into the *Congressional Record*, can do so.

I think that is chaos. I will not argue with you for 1 minute that there ought to be a system whereby a committee can come to the administration and say, here are 15 documents or 4,000 pages of documents, I don't care, which we would like to declassify and we want to get you to declassify them. And then if we reduce those to declassify we have got a different kind of an issue.

My objection in this case is that that wasn't done, and I am not arguing that there shouldn't be a process, but I am arguing that this isn't the process.

Mr. SCHUMER. OK. I do await the specifics.

Second issue, second question to Mr. Crowder. The October 13, 1989 memo that was put in the record, the memorandum of conversation, is truly dynamite. I mean it says in there things like the ongoing investigations could, quote, blow the roof off the CCC. The investigations are, quote, at the explosion stage, and the author concludes, if smoke indicates fire, we may be facing a four-alarm blaze in the near future.

In the memo are allegations of—and the conversation seems to indicate the people in the room thought it was likely to be true of nuclear-related equipment being sold—of money being diverted and possibly used for military sales, and certainly of abuse of the CCC Program.

Now, I am not holding anyone to a criminal standard at this point, but why in God's name, after all these allegations were made, was one nickel of grain sold to Iraq under the CCC Program? This conversation should have sent the alarm bells in the Department of Agriculture and they should have said no, no more credits, because of the possibility that they were being used for nuclear—to buy nuclear arms, because of the possibility they were being used to fuel the military, for the possibility of that corporation that seemed very real and has proven to be true, that there was fraud involved.

So why, after this memo, October 13, 1989, did we still proceed to move along? And second, answer that one and then, because my time has expired, second, did the State Department urge, did anyone in the State Department urge the Department of Agriculture to continue along with these sales despite these conversations and facts that they were aware of almost 3 years ago?

Mr. CROWDER. Let me respond to your comments and, if you want to have my response elaborated on, Kevin Brosch was in that meeting, but let me—

Mr. SCHUMER. We asked him to elaborate?

Mr. CROWDER. Let me give you—sure. Let me tell you a couple things. First of all, I was not in that meeting. I did not see the memo until it was in the *Congressional Record*. It was a State Department memo. I did not see it.

Mr. SCHUMER. Don't tell anyone because you might harm our security interests.

Mr. CROWDER. Second, it was not consistent with what I had heard had gone on in the meeting after the fact, is not consistent with my recollection of what went on in the meeting. And, third, and I think it is important to go back to the point I made in my testimony here, that on November 8, 1989 before we went forward with those—that first tranche of guarantees, our inspector general, who had people assigned to the case and had been working on it since September, told us in writing that there was no—he had no information on the basis of which we should not go forward, and that is in my testimony.

It is in—there is a letter there. So what you have is a set of notes from someone in a meeting that was not involved in the investigation, to use that information or to use what our inspector general says, and I would like to ask Mr. Brosch to comment about the meeting.

Mr. SCHUMER. As I understand it, the notes were from the Agriculture people—Department, who were working on the case.

Mr. EAGLEBURGER. No. No.

Mr. SCHUMER. Is that incorrect?

Mr. CROWDER. Not the inspector general people; no, sir. They were from the General Counsel meeting. If you will recall from my—let you get your questions, then I will—

Mr. SCHUMER. We have a dispute about that and maybe we will ask Mr. Brosch when he comes here, because—

Mr. CROWDER. OK. If you will recall, what I said was the inspector general who had investigators assigned to—

Mr. SCHUMER. Some of these people were also investigating, yes?

Mr. CROWDER. They were doing the administrative review and did not have access to all the records that they had, and it is a difference.

Mr. SCHUMER. They were Agriculture people.

Mr. CROWDER. They were Agriculture people.

Mr. SCHUMER. And then the inspector general people came to the conclusion they were lying or factually incorrect or what?

Mr. CROWDER. Let me ask Mr. Brosch to comment on that because I was not in that meeting.

Mr. SCHUMER. I would have to ask the chairman's OK. If you are going to be on the next panel, I will ask Mr. Brosch then. I would like very much to ask him that.

The CHAIRMAN. Yes, because the time of the gentleman has expired a couple of times. Mr. Leach.

Mr. LEACH. Thank you, Mr. Chairman.

Let me just reference one part of this recent commentary. I happen to think there is probably a lot that is classified here that shouldn't be classified and there is no reason it shouldn't be made a part of the public record.

But having said that, we have had normal rules of procedure of the House that you don't reveal classified information and I think this committee has to understand that it is in a very embarrassing position today that the U.S. Government is saying that other parts of the U.S. Congress have procedures that this committee does not have in place. So it would be this member's strong urging to the Chair that such procedures be put in place that at least would allow us.

The CHAIRMAN. Will the gentleman yield?

Mr. LEACH. Yes, of course.

The CHAIRMAN. The gentleman is quite mistaken if he thinks that there has been any rule or procedure otherwise of this House that was violated by any stretch of the imagination. And I just wanted to disabuse my colleague's mind in that respect.

Mr. LEACH. I appreciate the Chair's perspective on this, but let me say, the testimony today presented by competent authorities of the U.S. Government is that this committee will not have information released to it but other committees of the House will, based upon the fact that we do not have procedures in place that are expected of this body. I think that is embarrassing, we ought to understand it.

The second question I want to ask is specifically to Mr. Eagleburger. In your testimony, sir, you point out that the United States

Government did not supply weapons or weapon systems to the Government of Iraq. Is that a valid observation?

Mr. EAGLEBURGER. Yes, sir, that is correct.

Mr. LEACH. If that is a valid observation, how is it that a critic earlier today could have suggested to you and to all of us that the United States Government is responsible for the Frankenstein called Iraq? Does that strike you as having any validity whatsoever?

Mr. EAGLEBURGER. He is not here at this time but, no, sir, it does not strike me as having any validity. If I can expound on that for just a minute.

Mr. LEACH. Surely.

Mr. EAGLEBURGER. We, in the period after the Iran-Iraq war, had to try and—we tried to put together our best concept of what the policy ought to be in terms of trying to deal with Iraq, and we recognized that our levers were not great.

We recognized that there was a potentially very serious opponent here. We felt it was also important because of a desire to try to maintain some stability in the Persian Gulf that we had to try to bring him to a more reasonable position. It is clear that policy did not work. It is not the first foreign policy of the United States in a number of administrations that didn't work. We tried and we failed.

Now, my point is, it is easy to defend a policy that works. It is not so easy when a policy didn't work, but the fact of the matter is, because we tried to work with Iraq and with Saddam Hussein does not mean we created a Frankenstein's monster. He was there. He was his own monster. We tried to contain him. We did not succeed.

Mr. LEACH. I appreciate that. We tried to give the benefit of the doubt, at least in agricultural credits, to the Iraqi people. In effect, our efforts of good will were thrown back in our face, causing us to be skeptical in giving Iraq the benefit of the doubt when it intervened in Kuwait. I think this is another reason why Congress should have supported the administration by more than the bare margin it did on the very critical vote to use force to hold back that particular Frankenstein, that should be held accountable for its own actions.

I would like to turn to Mr. Crowder for a second. It is my understanding that one of the key points of your testimony is, and this is a perspective that is very critical, that in fiscal year 1990, the Department of Agriculture, that is CCC's exposure, was actually reduced by \$450 million to Iraq. Is that your testimony to us?

Mr. CROWDER. Yes, sir, that is what I am testifying.

Mr. LEACH. You also testified at the conclusion of your testimony that in May 1990 that this program was suspended; is that correct?

Mr. CROWDER. In May 1990, we decided not to go forward with the—

Mr. LEACH. This was 3 months before the Glickman amendment, an amendment that was very close and controversial, that frankly this Member, being one of a handful from the Midwest, supported at the time with some trepidation.

But this is 3 months after the Department of Agriculture suspended credits. In other words, the Department of Agriculture was

ahead of the curve to that small extent. Would that be a conclusion you would draw?

Mr. CROWDER. I don't know what your definition of ahead of the curve is. But as I indicated in my testimony, on May 17, I believe the date was, we briefed the House Agriculture Committee and their staff that we were not going forward with—

Mr. LEACH. I have just one other question. I would appreciate a brief answer from the three of you because the issue has been raised of the need for a special counsel or special prosecutor.

Mr. Crowder, are you aware of any wrongdoing by any member of the Department of Agriculture?

Mr. CROWDER. No, I am not and GAO and OIG have both testified to that fact.

Mr. LEACH. Mr. Eagleburger, are you aware of any wrongdoing by any member of the Department of State?

Mr. EAGLEBURGER. No, sir.

Mr. LEACH. Mr. Robson, are you aware of any wrongdoing by any member of the Department of Treasury.

Mr. ROBSON. I am not.

Mr. LEACH. Is any member of this committee aware of any wrongdoing of a criminal nature by any member of the U.S. Government? And if not, I think it is very important that we understand that policy differences exist, but innuendo that goes to criminal action ought to be put aside. Unless I hear otherwise, I hope this committee recognizes the seriousness of some of the statements that have been made earlier.

Thank you, Mr. Chairman.

The CHAIRMAN. The Chair will say that that is a matter which will be determined by the Judiciary Committee and, at that time, it will determine the evidentiary matters that the hearing would suggest. We do have Members of the Judiciary Committee present.

But Mr. Frank, I believe is next.

Mr. FRANK. Thank you. I would say, I have heard allegations that there may have been laws broken and I think that that is one of the things that the Judiciary Committee will hear some testimony on. I would also say that I would think that Frankenstein in fact was the wrong monster, more like Dracula because Saddam is very difficult for us to kill. I think if we are going to get our monster terminology, we probably ought to get the correct monster terminology.

Let me ask all three witnesses now, a previous questioner has said that the Agriculture Department in fact suspended the Agricultural Credits Program several months before the Glickman amendment passed. Given that, why did the administration fight so hard? Because my recollection was the Glickman amendment passed. I voted for it. Others voted for it. It had a majority and it was turned around with the active help of the administration so it became, in the final part, a partisan issue with the majority of Democrats voting for the cutoff, a majority of Republicans by a heavier margin voting against it, so the amendment was defeated.

If you were ahead of the curve, why were you throwing one?

Mr. EAGLEBURGER. Who do you want to try to answer that one?

Mr. FRANK. You first, Mr. Eagleburger. Why, given that, having cut it off, did you lobby so hard to reverse the vote?

Mr. EAGLEBURGER. I have to make an assumption, Mr. Frank, which is that—as would be the case I suspect with any administration, we would far prefer to be in the position to be able to make our own decision flexibly without the limitation that the legislation would impose. I have to assume that is the reason.

Mr. FRANK. You are saying this was not Iraq-specific lobby then, this was just a leave-us-alone reflection? I yield to my friend from New York who was involved in that.

Mr. SCHUMER. It was actually my amendment and Glickman was on the Agricultural Committee but he took it over because we thought it would carry. It was just Iraq-specific. It had nothing to do with anything else.

Mr. FRANK. But he is saying that his reasoning was not that they—they wanted to sell to Iraq but you don't think Congress should at any time, anywhere, any place ever tell the administration what to do.

Mr. ROBSON, do you have anything to add to this? You were not involved in the lobby?

Mr. ROBSON. I was not involved in that.

Mr. FRANK. That may be the case. My recollection is that the arguments that we used on behalf of the administration at that time had some Iraq-specific language in them.

Yes, Mr. Eagleburger.

Mr. EAGLEBURGER. I have here the *Congressional Quarterly Almanac* and it reads as follows: "276, H.R. 3950, Farm Programs Reauthorization Sanctions, Glickman, Democrat, Kansas, amendment to the Gejdenson amendment to deny credit guarantees to countries that violate human rights or support international terrorism and reallocate such guarantees to other countries, including emerging democracies" if that is the amendment we are talking about.

Mr. FRANK. Yes.

Mr. EAGLEBURGER. It is certainly not country specific.

Mr. FRANK. But it was in the debates. Everybody knew we were talking about Iraq and the point is very clear that the administration, in fact, intervened and the arguments were Iraq-specific. If you go to the *Congressional Record*, I remember them, we were all—we all knew we were talking about Iraq and, in fact, the arrangements in the debate had to do with Iraq and the administration was saying we can still save them.

I will stipulate that the evidence about giving arms to Iraq during that period is far from established. The administration was giving arms to Iran during that period, not Iraq; we shouldn't confuse that. During the war, it was Iranians that were getting help of the administration, not the Iraqis.

But let me ask you with regard to that issue: Are you convinced that there is no truth to the—or reasonably convinced that there was no truth to the assertion that there was some diversion to go to arms? Is that still under investigation?

What is the status of those allegations as far as the administration is concerned? Are they being looked into or are you convinced that there is nothing there?

Mr. EAGLEBURGER. To whom is this addressed?

Mr. FRANK. You, Mr. Eagleburger and Mr. Robson and then Mr. Crowder.

Mr. EAGLEBURGER. On the basis of everything I have read in the record, and in talking to my colleagues, and in terms of the investigations carried out thus far by the Agriculture Department, and a search of our own records, we have no evidence at this stage that there has been a diversion. I cannot say—

Mr. FRANK. Is there any active investigation of those allegations going on anywhere in the administration?

Mr. EAGLEBURGER. Let me finish. I can't say that there is or is not a diversion. I can only say at this stage.

Mr. FRANK. I understand that. That is why I went onto the next point. Is there any active investigation going on of those allegations? Mr. Crowder?

Mr. CROWDER. In the case of what is going on in Atlanta, I don't know. That is where the investigation is going on.

Mr. FRANK. So your answer is you don't know. That is good; that is a good answer.

Mr. CROWDER. I don't know.

Mr. FRANK. That is good, because we have a time problem with regard to classification and I have to say, unlike my friend from Iowa, I am not embarrassed. I think the embarrassment comes when people use classification to prevent embarrassment. Would you tell me of any of the documents that have been released how they have harmed the U.S. Government?

Mr. EAGLEBURGER. Mr. Frank, you just asked the question that was asked 10 minutes ago by—

Mr. FRANK. Then I withdraw the question.

Mr. EAGLEBURGER. You want the answer again?

Mr. FRANK. No, I don't mean to take up the time of the committee. The answer probably wouldn't make me any happier the second time around, so—I am running out of time.

Mr. EAGLEBURGER. I might give it a little more eloquently the second time.

Mr. FRANK. Eloquence has never been my strong suit.

Mr. EAGLEBURGER. I do want to come back to this question on the investigation, and again, I can't—the State Department is not an investigatory agency, but I have to assume, that is all, that the issue that is—that the examination that is going on in Atlanta by the Justice Department that that would be an issue that would be under investigation.

Mr. FRANK. We will pursue that. Mr. Schumer has showed me again references to Iraq and I want to say it is clear there were some references here, there wasn't any doubt that we knew we were voting on Iraq and primarily dealing with Iraq at the time.

Mr. EAGLEBURGER. Let me just make it clear, I was pleased to hear from the Assistant Secretary of Congressional Relations, I was right in my answer for a change, that is we opposed it because the point was, when it is legislated that we don't have the flexibility.

Mr. FRANK. You opposed it because you think you always know better and, if I were you, I wouldn't use the Iraq example in trying to make that case in the future.

Mr. EAGLEBURGER. I would be grateful if you wouldn't put words in my mouth, Mr. Frank.

Mr. FRANK. In that case, I will not be the beneficiary of your gratitude because I am putting words to a policy that I have seen.

It is this administration's view that you always and forever know better than Congress with regard to foreign policy and what we have gotten, thanks to the gentleman's from Texas unwillingness to be bound by a political classification system is, we have one clear example of it being the case that the problem was that the congressional intervention was not successful, not that it happened.

I thank you, Mr. Chairman.

The CHAIRMAN. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman. I can shed some light on what happened on the day of the Glickman amendment, because I am the person that later in the day successfully amended the Glickman amendment. I might say, there wasn't a whole lot of administration support. They weren't working hard on this. In fact, I would have wished they would have worked harder on it.

I took language that had been offered in the Senate at one point and simply was successful in changing the Glickman amendment later that same day so that flexibility was given to the Secretary of Agriculture to make an assessment about the damage that would be brought against the American economy, the farm economy and to weigh that in consideration if, in fact, he wanted to exercise a waiver.

Now, you heard a few minutes ago the USDA had already decided not to proceed with the second tranche earlier and, in fact, that waiver opportunity which was provided the Secretary was never exercised. But, of course, this Member remembers well the damage that was done to the agricultural sector during the Carter grain embargo and I didn't want to see that language put into statute with respect to Iraq or anyone else. And so that waiver opportunity was given but it was not the administration lobbying hard for the Bereuter amendment which prevailed later on that day.

Mr. Eagleburger, I thank you gentlemen, all of you for your patience and for your testimony here today. Mr. Eagleburger, earlier you said, as I recall, we have found no indication that State Department has specific evidence of diversion to third countries of commodities sold to Iraq or Iraqi sources for misuse of CCC resources to purchase military weapons.

If that is close to being accurate, what you indicated, what do you mean when you say we found no indication? Can you be more specific about that?

Mr. EAGLEBURGER. Yes, sir. As I tried to prepare for this hearing in the State Department, and I am talking only about the State Department now, what we did was make a thorough search of what we thought were the relevant universe of documents, if there were going to be any, and we looked where they would be.

We checked with the relevant bureaus and in both the document search and in checking with the relevant bureaus, we found no evidence of any of the alleged diversions. I can't guarantee with 100 percent certainty that some document isn't going to pop up someplace sometime that is—that has been somewhere that we didn't think to look.

I can only tell you on the basis of our search, and we tried to do as complete a search as we could, we found nothing.

Mr. BEREUTER. Thank you, Secretary Eagleburger. According to Chairman Gonzalez' chronology of events which he has distributed, page 11—I don't know if you have it. It is not essential that you do.

Mr. CROWDER. No, I don't.

Mr. BEREUTER. Indicated that you cabled our Ambassador in Baghdad on February 9, 1990 and essentially the construction I get about what happened—and you can correct me if this is incomplete or inaccurate—is that you suggested a State Department strategy to delay the second \$500 million in credit until the Iraqis answered the Justice Department questions about the BNL affair.

If that is accurate or at least it is one of the things that you attempted to convey or one of the reasons for what you conveyed, it seems to me that you are attempting to put pressure on the Government of Iraq to cooperate in the investigation of a possible misuse of resources through BNL.

Am I right in that construction or is the report about what you attempted to do with your contact with our Ambassador in Baghdad accurate?

Mr. EAGLEBURGER. Well, in the first place, if this is one of the cables that bears my name—which I didn't see until I prepared for this investigation. So we have to start with that—it isn't me. It is the Department's statement. And let me make a point here, which is, I am not retreating from what the Europeans call ministerial responsibility. If I was in charge that day, I am responsible for it.

It does get to the question of whether I was personally aware of a particular document and that is relevant when we get to the question of BNL and—

Mr. BEREUTER. Perhaps you could speak only to the State Department strategy then.

Mr. EAGLEBURGER. Yes. As I read this cable, it is, in fact, a report to Ambassador Glaspie in which—let me read it just quickly for a second, if I may. What this is doing is, in effect, reporting that the USDA General Counsel, and I would assume therefore the Agriculture Department, does not want to proceed with the second tranche until after the Atlanta indictments have been announced, which at that point were expected within the next month.

With regard to the question of a demand to the Iraqis to request assurances that they would assist in the investigation, it reports to her the fact that the Secretary of State had raised that question with Tarik Aziz and Tarik Aziz had said he would cooperate, and it also says that if the Department of Justice or the prosecutor have anything specific they want to put to the Iraqis, we would convey these to the Iraqis and try to get them dancing.

As far as I can see, it is simply a report to Glaspie telling her what is going on. I need to say for the record, however, that the final paragraph of the cable, and let me make it clear, is stupid and if I had seen it, I can assure you it wouldn't have been in the cable. So I am trying to—should I make it clear what the paragraph says? It is in the *Congressional Record*. That I do know.

[Quoting from the cable]: "We have no problem with you sharing the above with Larry Panasook," (whoever he was, Panasak) "at your discretion but please ask that he be careful not to play it back to his colleagues here."

In other words, they could tell the Agriculture attache, or whatever; he was in Baghdad, what the cable was but they shouldn't let him tell it back to Washington to the Department of Agriculture. That is ridiculous.

Mr. BERKEUTER. The point I was trying to make if I understood it correctly, and I have not seen the cable or the transcript of it, is that it seems to me that there is nothing in that that indicates you are attempting to thwart the investigation but you are putting pressure on the Iraqi Government to assist in clarifying anything.

Mr. EAGLEBURGER. And informing Ambassador Glaspie that the Secretary has already put pressure on Tarik Aziz in that regard.

Mr. FRANK. Could I ask if that cable was classified?

Mr. EAGLEBURGER. Yes, but it has also been in the *Congressional Record*.

Mr. FRANK. That is an example of documents that were made public.

The CHAIRMAN. Mr. Kennedy.

Mr. KENNEDY. Mr. Eagleburger, I wanted to pursue with you the implication of your statement—

Mr. EAGLEBURGER. Where am I? Oh, yes.

Mr. KENNEDY. Which would suggest that the—of the two \$500 million tranches that you had evidently decided upon, your indication was that the first \$500 million only drew down \$392 million; isn't that correct?

Mr. EAGLEBURGER. It is something like that; yes, sir.

Mr. KENNEDY. Then I was wondering if your implication in your statement is that that was a decision that you made or you agreed with that you had gotten to a point where you thought that this was no longer a policy that should be pursued; is that correct?

Mr. EAGLEBURGER. No, sir. There was a clear decision by the USDA, but with the support of, amongst others, the State Department not to proceed with the second \$500 million tranche. The \$392 million, as I understand it, again subject to the Agriculture Department, was that in fact all that had been spent of the first \$500 million before we imposed sanctions on Iraq for its invasion.

Mr. KENNEDY. But at any time, did you back off or did you continue to advocate for—to go beyond the \$392 million?

Mr. EAGLEBURGER. The State Department—the State Department advocated proceeding with the whole \$1 billion—let me back up. The State Department agreed to the tranching. The State Department, as I read the record, beginning in April 1990, shifted its position from support for proceeding with the second \$500 million to agreeing that, in fact, we should not proceed with the \$500 million until the investigation had been complete.

That was—in reading the record, the State Department shifted from support for the full \$1 billion, in other words, in—

Mr. KENNEDY. Mr. Eagleburger. I have several documents here that are from the U.S. Department of State that would indicate at the urging here, quote, at the urging of Secretary Baker, USDA has proposed a full \$1 billion CCC Program. That is dated November 1989. We have further—there are further documents here that would suggest that Secretary—the Secretary telephoned—

Mr. EAGLEBURGER. That is correct.

Mr. KENNEDY. Secretary Yeutter on October 31 that he urged the USDA to do the same program, \$1.1 billion program. I guess that what I am trying to drive at, it seems to me that what you had was an agency at the USDA that was providing through the CCC Program aid that was intended to help out poor Iraqis have food in their bellies.

What we then find out is that in April of that year, we find out that the—that there has been a lot of hanky-panky going on with the BNL bank, that the BNL bank is being used to—not for the purposes of just feeding poor Iraqis, but rather is being used as a funnel to provide for arms, to provide for covert types of activities that—dual use technologies and the like, and I am trying to understand at what point did you, in your office, make the determination that the—we should stop providing that type of aid, knowing that, in fact, the bank was being used with this kind of subterfuge?

Mr. EAGLEBURGER. First of all, I will try to go through this and answer in as much detail as I can. But first of all, Congressman, the BNL did not participate in the \$500 million—it didn't participate at all in the CCC credit arrangements that are covered by—

Mr. KENNEDY. I didn't mean to imply that the CCC was directly being used by the BNL. What I am trying to suggest is that you were aware of the abuses that Iraq was involved with beyond the point at which you implied to this committee in your statement you began advocating against the policy of the continuation of the \$500 million, the second \$500 million.

My impression from these documents is that you did not back off and that there was—it is very unclear to me at which point you did begin to back off and say that we should not continue this policy of the second \$500 million.

Mr. EAGLEBURGER. The Secretary supported the \$1 billion program before, in fact, the issue had been decided. When there was—debate was going on on whether or not there should be a program for Iraq. That is in 1989, early on. The date, I don't have at my fingertips. He supported the \$1 billion program.

When the decisions were—when it was dealt with in the NAC—and John can discuss this in more detail—when it was finally decided that there would be a \$500 million tranche and that we would wait on the second \$500 million, the State Department supported that.

While the \$500—the first \$500 million was still in process and we had reached \$300 and whatever million, that isn't the point. In April 1990, the State Department representative at an interdepartmental meeting agreed that, in fact, we should hold to the \$500 million and not proceed with the second \$500 million. This is, after all, in the last analysis a decision to be made by the Agriculture Department.

Mr. KENNEDY. Is it normal, Mr. Secretary?

Mr. EAGLEBURGER. And they decided—

Mr. KENNEDY. Excuse me. Sir, is it normal—could I just ask: Is it normal that you would be this involved in this type of decision or was there some other consideration going on here?

Mr. EAGLEBURGER. When you say "you," you mean me or the Department?

Mr. KENNEDY. The Department.

Mr. EAGLEBURGER. The Department is involved through the NAC——

Mr. ROBSON. They are a member of the NAC, Mr. Kennedy.

Mr. EAGLEBURGER. Where this issue is discussed.

Mr. KENNEDY. Is it normal that NAC is involved with these decisions?

Mr. ROBSON. Yes. That is what they do for a living.

Mr. KENNEDY. So you are saying this is not—what other countries have been involved with this same type of decision?

Mr. EAGLEBURGER. The NAC?

Mr. ROBSON. The NAC?

Mr. KENNEDY. The NAC, that does this for a living.

Mr. ROBSON. NAC is involved in most of the credits under the CCC Program, under the——

Mr. KENNEDY. Is there any other country that you had this kind of involvement with through the NAC? Is there any other country?

Mr. ROBSON. That I personally have?

Mr. KENNEDY. You were the one who brought up the NAC. I am just asking.

Mr. ROBSON. NAC is involved in dozens of countries, Mr. Kennedy.

Mr. KENNEDY. I am sure they are involved with dozens of countries. With the same level you are involved with this decision?

Mr. ROBSON. If you would like a list of them, I will supply them for the record.

Mr. KENNEDY. Can you name one right now?

Mr. CROWDER. Mexico.

Mr. KENNEDY. You can't remember any; is that right?

Mr. ROBSON. Egypt.

Mr. KENNEDY. It just seems to me that what we have here is a situation where the—there is a tremendous involvement by the NSC or the White House in terms of this decision. It is unclear to me as to what—at what period of time the decision was made to back off the second \$500 million.

My impression is from these documents and my impression is from the testimony that you continued to advocate well beyond the knowledge that Iraq was using BNL for these types of purposes that were undercutting essential U.S. policy, and that is what I still am having trouble understanding.

Mr. EAGLEBURGER. I don't know what is difficult to understand.

Mr. KENNEDY. I guess I must be thick then, Mr. Secretary.

Mr. EAGLEBURGER. The fact of the matter is——

Mr. KENNEDY. There are a lot of people that are having trouble understanding it, Mr. Secretary. It is also difficult to——

Mr. EAGLEBURGER. The fact of the matter is, as I said, in reviewing the document, it is clear that the State representative in an interdepartmental meeting in April said we ought to hold with the first \$500 million. We ought not go ahead with the second \$500 million.

But the fact of the matter is, these decisions are, in the last analysis, made by the Agriculture Department and if he has a minute, I suspect he could describe to you the precedent.

Mr. KENNEDY. I understand that they are ultimately made by the Agriculture Department. That wasn't what we were pursuing.

What we were pursuing was what your involvement was and what the involvement of the White House was in terms of putting pressure on his organization, which seems to me to be completely out of the ordinary.

Mr. EAGLEBURGER. Well, it is not out of the ordinary. There is a thing called the NAC which this man chairs—

Mr. KENNEDY. Which he can't remember another country. He has to ask a staffer person to find another country.

Mr. EAGLEBURGER. Can I finish the sentence?

Mr. KENNEDY. Certainly, you can finish the sentence.

Mr. EAGLEBURGER. There is a process in the NAC in which they deal with problems like this every time. There are other Departments that are members of this thing. It gives advice regularly to the Agricultural Department with regard to CCC credits and it is—this issue was discussed there. The Agriculture Department was given advice.

The State Department—I am saying for the 14th time, in the review of the State Department records, it is clear to me that the State Department in an interdepartmental meeting in April said we should hold with the first \$500 million and not proceed with the second \$500 million.

Now, I am not a member of the NAC and I am certainly not the Agriculture Department. I am sitting here bouncing between the two, both of whom have more answers to this subject than I do.

Mr. KENNEDY. Mr. Chairman, my time has expired.

The CHAIRMAN. Mr. McCollum.

Mr. MCCOLLUM. Mr. Crowder, at any time, to your knowledge, did the State Department or anybody at the White House put any pressure on the Department of Agriculture to extend this particular credit to press for the \$1 billion?

Mr. CROWDER. To extend it or to stem it?

Mr. MCCOLLUM. To give it, to seek it.

Mr. CROWDER. Let me go back in history, Congressman, to where we were as one reason. In my testimony, I outlined the sequence of events that we started with where, in our review in the summer of 1989, we proposed a \$1 billion program.

And then subsequent to that, as a result of the NAC meeting with BNL and so forth, we backed off to the tranching of two \$500 million tranches depending on the outcome of their investigation, not only what was going on at BNL, but broader because BNL did not hold all of the guarantees in here.

Mr. MCCOLLUM. Let's go back further than that. My interest is at the very beginning of all this. There has been a lot of confusion. It seemed very straightforward. I listened to your testimony, most of it physically being present here, and I read the rest of it. It seemed to me at the very beginning is the first question; that is, when you first sought, on the part of Agriculture, \$1 billion, it wasn't a question then of stopping or starting, it was just that is what you wanted.

And then there was a question of maybe we could get \$400 million, then you couldn't talk them into that. Was the State Department at that point pressing you to seek the larger sum, or pressing you to do this at all, or was this whole concept of wanting to do

this primarily originating in the Department of Agriculture? That is the question.

Mr. CROWDER. The concept originated in the Department of Agriculture and through that September, October up until November 8, 1989 period, the State Department expressed their foreign policy interest in doing this, as Secretary Robson has indicated and as has been suggested here today, supported us in our position in the NAC.

Mr. McCOLLUM. But that was your position and they supported you, not the other way around; is that not correct?

Mr. CROWDER. And when we made the initial tranche, that is exactly right, sir.

Mr. McCOLLUM. Also, the National Advisory Council, through which the State Department got involved, that was not a direct State-Department-to-the-Department-of-Agriculture discussion; is that correct?

Mr. CROWDER. No. In fact, when we were putting together the Iraq Program, we were also putting together the program for all the other countries, because there are about 40 countries that have participated in this program. We had a \$5 billion program, minimum, as dictated by Congress, and we were going through both the country allocation and the commodity mix allocation for each of the countries in July and August 1989.

Mr. McCOLLUM. Am I correct, too, that for this particular \$1 billion, eventually it was \$500 million and \$392 million, I guess, that was actually provided in credit by the CCC, BNL was never involved in this particular one? I mean, they had a history of involvement with credits to Iraq but not this particular one; am I correct in that?

Mr. CROWDER. That is correct. They did not participate in any assigned guarantees after August 1989 and in October 1989 agreed with us that they would not participate in any of the \$500 million.

Mr. McCOLLUM. All right.

Mr. Eagleburger, Secretary Eagleburger, I think you have expressed your frustration here today and I can see why. It seems pretty darn clear to me that the order of this is this: It was a very simple process. The National Advisory Council was involved because the Department of Agriculture made a request, which was part of the routine package that Mr. Crowder has just explained to us.

You got involved in it as the State Department did, along with Mr. Robson and everybody else on that council, and you recommended, through Secretary Baker, to support the Agriculture Department. Then you went through a whole process that is pretty clear here with BNL not involved in any of this.

Then we came to the decision later on, for reasons that became apparent in the course of this, that it wasn't smart to go ahead with the full \$1 billion, but that was a down-the-road decision the Council made later on. Am I reading that correctly?

Mr. EAGLEBURGER. Yes, sir, you are reading it correctly. They were—the decision of not to proceed really arose in the period April and May, I think, of 1990, not to proceed with the second \$500 million.

Mr. McCOLLUM. Right.

Mr. EAGLEBURGER. But the process, as you have described it, is correct.

Mr. McCOLLUM. That was the Department of Agriculture's initiative to begin with what you supported; is that correct?

Mr. EAGLEBURGER. Yes. But the State Department very clearly thought that this was a good program and we ought to do it for foreign policy reasons.

Mr. McCOLLUM. I understand that, but the point of raising it the way it is, Mr. Crowder has not indicated it, you have not indicated it, Mr. Robson has not indicated it, there was no arm twisting in this. You encouraged it, but you didn't go over there to the Department of Agriculture and say, hey, this is what we want you to do and this is how the program got started?

Mr. EAGLEBURGER. That's correct.

Mr. McCOLLUM. That is not the way it worked?

Mr. EAGLEBURGER. That is correct.

Mr. McCOLLUM. And Mr. Robson, am I correct, in that situation, you didn't see the White House or anybody else going over and twisting the Department of Agriculture's arm to initiate this for other reasons, did you?

Mr. ROBSON. No. It was initiated by the Department of Agriculture, as Under Secretary Crowder has already testified.

Mr. McCOLLUM. And you just supported it as for the reasons you have given in your testimony today, right?

Mr. ROBSON. We looked at the program, looked at the questions and uncertainties, did our best to assess them, made a decision and went ahead with it.

Mr. McCOLLUM. Thank you. Those are the only questions I have, Mr. Chairman.

Mr. EAGLEBURGER. May I?

Mr. McCOLLUM. Yes, Mr. Eagleburger, you may follow up.

Mr. EAGLEBURGER. I have got to make sure this record is clear, however.

Mr. McCOLLUM. By all means.

Mr. EAGLEBURGER. It is in the documents anyway, the Secretary of State called the Secretary of Agriculture on October 13 and said to him that, in his judgment, the CCC Program was important to our bilateral relationship to Iraq and we support the effort to reinstitute it.

He said, however, that we should not go forward with the program if we have substantial evidence of a pattern of serious violations of United States law by high-ranking Iraqi officials, and he said that our information, our information about the investigation, indicates that the prosecutor does not now intend to indict Iraqi officials.

On foreign policy grounds, we support a program of up to \$1 billion released in tranches with periodic compliance reviews. He went on after this talk, to discuss safeguards, but I don't want anybody to accuse me later of trying to hide the facts that the Secretary of State reported to the Secretary of Agriculture Program.

Mr. McCOLLUM. This was initiated by the Department of Agriculture Program?

Mr. EAGLEBURGER. That is correct.

Mr. McCOLLUM. This was a followup telephone call?

Mr. EAGLEBURGER. That is correct.

Mr. MCCOLLUM. It was simply to say, where we would like to see it provided at this juncture. It was an intermediate telephone you just described, not an initiated one?

Mr. EAGLEBURGER. Correct.

Mr. MCCOLLUM. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Luken.

Mr. LUKEN. Thank you, Mr. Chairman, and I appreciate, gentlemen, your patience and testimony today.

And in listening to it, and trying to weed through it and boil it down and come up with a couple of simple observations, it seems to me that what you have said is that, even though Iraq was having terrible difficulty repaying debts that they incurred during the Iran-Iraq war, that Mr. Robson thought they were an acceptable credit risk for this program, even though we knew of their nuclear program and their chemical program.

The State Department thought somehow, by extending these credits to Iraq, that we could make this fellow who has been described as a cross between Hitler and Frankenstein and Dracula our friend. Mr. Eagleburger, I think you have acknowledged today, and I appreciate your candor, that in retrospect, hindsight being 20/20, this policy didn't work. And I think it is pretty clear, again, hindsight being 20/20, why this policy failed.

But I want to pursue the question that was asked just before about who initiated the \$1 billion. Where did the \$1 billion, Mr. Crowder, first come from? Was that a figure that the Agriculture Department had and when was that first recommended or proposed that there be \$1 billion in credits?

Mr. CROWDER. The—that was developed in the—somewhere in the July, August, early September period, the \$1 billion was—somewhat more than that had been requested by Iraq and it was done by the operations people in our commodities—

Mr. LUKEN. Would it be written anywhere that Agriculture thought \$1 billion was a good idea before October 1989? Could you show me where that might be written? The point I am getting at is that there was this memo which I think pretty clearly stated the State Department's attitude about this issue, and I think Mr. McCullom was getting at the question of whose idea was it first, who first thought it was a good idea.

And I got the impression from what you said that—Agriculture first thought it was a good idea and I would just like to know if you could present to me the written documentation about that.

Mr. ROBSON. Can I just say one thing, Mr. Luken?

Mr. LUKEN. Sure.

Mr. ROBSON. That is, the program for the previous 2 years had been at that level, so this was a continuation of the program that had been taken—

Mr. LUKEN. I want to be specific with you. I think many of us in public life have some disagreements with what is written in the media and I want to read you something that was in the *U.S. World and News Report* article and give Mr. Eagleburger a chance to comment and Mr. Robson, if you care to.

It says, "After lobbying from top State Department officials Lawrence Eagleburger and Robert Kimmitt, an administration advisory

council approves \$1 billion in commodity loan guarantees for Iraq in 1990, overruling the Treasury Department and the Office of Management and Budget. The guarantees are to be made in installments of \$500 million each."

Now, your testimony today is that is not correct?

Mr. ROBSON. That is not correct.

Mr. LUKEN. So what I am looking for is the first evidence, other than the State Department memo, that either Treasury or Agriculture says this is a good idea, and if you have it, please submit it. If it was just oral, please tell me that.

Mr. CROWDER. We will submit that for you.

[The information referred to can be found in the appendix.]

Mr. EAGLEBURGER. Mr. Luken, may I? Just one issue, real quick?

Mr. LUKEN. Yes, sir.

Mr. EAGLEBURGER. You said we thought we could make Saddam Hussein a friend. Could I ask you to use a word other than friend; that we could at least keep him more moderate?

Mr. LUKEN. Well, Mr. Eagleburger, I understand your point is that you understood enough about the beast, if I could use that term, you understood enough about him to know you could not make him honest, upstanding, friendly at all times, and loyal to the United States. But you did think that somehow this policy would help you co-opt him, make him act in the best interest of this country.

Mr. EAGLEBURGER. Yes.

Mr. LUKEN. Mr. Chairman, I yield back.

The CHAIRMAN. Mr. Riggs.

Mr. RIGGS. Thank you, Mr. Chairman.

Good afternoon, now, gentlemen, and I too appreciate your patience and your testimony today.

For Secretary Robson and Secretary Eagleburger, do you think that giving one-fifth of the CCC fiscal year 1990 budget to a single country is a good example of a clear, coherent foreign policy?

Mr. ROBSON. I don't know that that is a foreign policy issue, but I would like to get Mr. Crowder, if he could, to answer the question as to how they allocate the CCC Program, which is not a responsibility of the Treasury.

Mr. RIGGS. I would defer that to the next panel, if I could, unless Mr. Crowder wants to comment, but that question had been asked of him by my colleague who just spoke.

Mr. CROWDER. Let me make one point on that.

Mr. RIGGS. Please.

Mr. CROWDER. Is that Mexico also had more than one-fifth of the program, and we should look at it, the decision, in a combination of two things; a market development potential as well as a portfolio mix.

And, as I indicated in the testimony, we did see market development potential in Iraq. The 10th or 12th largest, depending on how you measure the markets, as well as accounting for 20 percent of our rice exports and so forth. So it had proven to be a good market for us.

Mr. RIGGS. Marketed potential for specific agriculture exports from the United States.

Mr. CROWDER. Agricultural exports, yes.

Mr. RIGGS. Mr. Eagleburger.

Mr. EAGLEBURGER. I can't speak to the question of percentages, but it goes back to the question Mr. Luken raised, and I want to be very clear on it. From the State Department's perspective, we viewed the CCC credit guarantees—and you can argue whether it was sensible or no—but we viewed those as one of the few tools we had to try to exercise some influence on Saddam Hussein toward moderation.

Mr. RIGGS. Yes, sir. Thank you.

Mr. Crowder, your testimony refers to an Agriculture document, and I assume it was some sort of internal memoranda, that says there was no, quote, evidentiary basis for withholding approval of new CCC guarantees for Iraq. Was that writing prepared specifically for the November 1989 NAC meeting?

Mr. CROWDER. Would you repeat that again?

Mr. RIGGS. On page 11 of your testimony you refer to a memo that, in sum, stated there was no evidentiary basis for withholding approval of new CCC guarantees for Iraq.

Mr. CROWDER. Oh, that was the memo that our inspector general had written to the Deputy Secretary before we went to the NAC meeting.

Mr. RIGGS. So it was prepared for the NAC meeting?

Mr. CROWDER. Yes.

Mr. RIGGS. Was there a purpose beyond, I guess just the immediately apparent purpose for writing that? Was there a concern—

Mr. CROWDER. Yes.

Mr. RIGGS. Or a need for mitigating, in some fashion, the allegations that had surfaced to date at that time?

Mr. CROWDER. Not to mitigate. We were concerned about the allegations that had been made. And, as indicated in my testimony and my statement, we wanted to ensure throughout here absolute program integrity as much as we could.

We did not have access to everything that was going on with the investigation in Atlanta. The inspector general had access to more information than we did, and we knew what we had and they were just allegations at that stage. So before going to the NAC meeting we thought it was prudent to get the opinion of our inspector general before going to the NAC meeting to argue for the \$500 million initial tranche as well as the second \$500 million tranche.

Mr. RIGGS. So you had a conscious thought to develop some sort of legal argument for continuing with the Ag Credit Program even in the face of these allegations?

Mr. CROWDER. They were just allegations and we did not think that we should cut off a program based on allegations. But if our inspector general had information that we did not have, that we should have, we were prepared at that time to back off, if they did have the allegations—I mean any evidence we didn't. But they said they had no evidence; that we should go forward. Should not go forward.

Mr. RIGGS. Secretary Robson, who is the convener or moderator of the NAC meetings?

Mr. ROBSON. I am sorry?

Mr. RIGGS. The convener and the moderator.

Mr. ROBSON. The Treasury Department chairs the NAC meetings. As I said in my testimony, normally that is done at a staff level. Most of the NAC discussions go on at a lower level. However, any member of the NAC team can ask that an issue be raised to a higher level.

Mr. RIGGS. Was that the case in the November 1989 meeting?

Mr. ROBSON. Yes, it was.

Mr. RIGGS. So that within your agency, then, sir, there was a policy or decisionmaking process that elevated this NAC meeting to particular importance?

Mr. ROBSON. Well, it was in the process of the NAC discussions at the staff level that the Treasury representative suggested that it would be better to have it examined—it would be useful to have it examined at a higher policy level.

Mr. RIGGS. A couple of more questions, if I might, before my time completely expires.

Secretary Eagleburger, does the State Department have the ability to override at NAC meetings? Does it have a say in those meetings that is tantamount to a veto authority?

Mr. EAGLEBURGER. No, sir, they do not. We have a right in the NAC to give our views, but that is it.

Mr. RIGGS. In the case of the November 1989 meeting, was there a straw vote taken of some sort? I mean, how is it ultimately—

Mr. ROBSON. I chaired the meeting. I went around the room after there had been a lengthy discussion and examination of all of the issues that were on the table—and they were all on top of the table—and I asked each person at the table how they felt about it. People gave their views, we reached what I considered to be a consensus, and that was the end of the meeting.

Mr. RIGGS. Now, I assume, but I don't believe this has been brought out in the testimony yet today, that there must be a provision for withdrawing the credit guarantees under extraordinary circumstances; is that correct, Mr. Crowder?

Mr. CROWDER. Yes, there is. We can suspend ourselves at any time for program violation reasons; or, if a payment is a day late, the program is automatically suspended until the arrearage is caught up.

Mr. RIGGS. In that case, is it sort of lender beware, or would the institutional lenders then call these loans if you were to suspend or withdraw the guarantees for those loans?

Mr. CROWDER. The guarantees had been made to stay in effect. No new guarantees can be registered.

Mr. RIGGS. There or shortly after the November 1989 meeting, apparently there was a January 9, 1990, memo that the chairman has discovered through his subpoena power where the Federal Reserve Board stated indictments were anticipated in the BNL scandal the following month.

Did that ever trigger any discussion or thought process at the higher levels of the administration about reconvening the NAC or potentially looking at suspending those credit guarantees?

Mr. CROWDER. All of those things triggered responses to us, and, if I recall correctly, during that time, Congressman, I don't know the exact date, I had a meeting, and I asked, I believe, our inspector general, again, if they had evidence that we should either cut

the program off or not go forward with the second tranche, but, again, the answer was no.

Mr. RIGGS. Did you contact, sir, the Federal Reserve or the Justice Department with respect to the reasons behind that memo indicating that indictments were in fact imminent, even though the indictments were subsequently delayed for over a year's time?

Mr. CROWDER. No, I contacted, if I recall correctly, and I will have to check my records on that, but our inspector general, who has investigators working with the Department of Justice on this issue.

Mr. ROBSON. We did have another NAC meeting in February, Mr. Riggs, and at the lower level. It was considered sort of an update meeting. People were aware of these allegations. No decisions or recommendations were made.

The obligation that the Department of Agriculture undertook at the November meeting, was that understood that the NAC would be advised when it was time to go forward with the second tranche. That was the arrangement that had been made back in November.

Mr. RIGGS. So there was a meeting the following month after the Federal Reserve Board memo, but the middle managers of the agencies decided at that point in time that further review was not warranted; it should not be elevated to a higher policy level?

Mr. ROBSON. There was followup by NAC and by the Justice Department. It was being reviewed, and at that point there was no information—there was no action taken at the meeting.

Mr. RIGGS. Thank you, Mr. Chairman.

Mr. CROWDER. Mr. Chairman, may I—I am just checking my notes from the documents from that time period. I believe it was February 23, not January 20, that I visited with their inspector general on the status of this, but I will have to do it—I just wanted to make sure I don't misspeak here in terms of the dates. But it was during that time period I asked again about the evidence.

Mr. RIGGS. And it was the January 9, 1990, Federal Reserve Board memo that triggered your conversation with the inspector general?

Mr. CROWDER. I don't know what triggered that particular—oh, OK. I am told I don't have the Federal Reserve Board document as part of our documents. I am sorry.

Mr. RIGGS. What I am driving at is, is there a fail-safe in this program? There are many lessons I guess that we can learn from this experience and our policy with respect to Iraq, but it sounds to me like the entire process here and the criteria by which we ultimately review and approve these loan guarantees is rather informal.

I am surprised to learn at just how informal it is, and I am wondering why, with the Federal Reserve, it seems, raising a number of red flags and talking about their cumulative concerns, we didn't go back at the highest level of the NAC and revisit the question of those credit guarantees to Iraq with an eye toward suspending the Credit Guarantee Program.

Mr. CROWDER. Well, as indicated by the fact that we do have in the documents, we have submitted records of our meeting to discuss this issue, I think that we were diligent in that. And I think if you look at the outcome, in terms of what we wanted in terms of

guarantees and what was paid back over that time period, it speaks for itself.

Now, obviously, if you go back and say with all this information what would you have done then? Given the information that we were operating with, I think that it came out in our favor in terms of the results, in terms of CCC exposure and our ability to export agricultural products.

I also indicated in my testimony that we have made a number of program changes, and we started that in the fall of 1989 and culminated even with additional changes in the 1990 Farm bill, and the program does run better now than it did then.

The CHAIRMAN. Time has again expired. We can't filibuster this. Mr. Vento.

Mr. VENTO. Mr. Chairman, it is very interesting. I am pleased you, first of all, put these things in the record because, apparently, it is the first time some of the people at the table have seen correspondence they signed. So it has filled an amazingly appropriate purpose, Mr. Chairman.

Let me just say, I just find it mind-boggling that here we had Iraq growing to \$1 billion a year credit in a relatively short period of time, the 10th largest importer of United States food stocks while at the same time we have this war going on with Iran for a goodly part of the 1980's and this tremendous buildup. And, to say the least, money is fungible. So, obviously, we are looking here, at the allegations of direct links.

Let me point out the October 13, 1989, memo, talking about all this good information that you made, and I was pleased, Mr. Crowder, to see you agreed with the decisions you made at that time. And other members at the table may want to pay attention to this question because it is directed to all of you.

There was a memo that came out from the Department of Agriculture, and in that memorandum it refers to 10 separate ongoing investigations which could blow the roof off the CCC, which are at the explosive stage. And the author concludes, throughout this memo—it is a much longer memo; apparently, some of you had not seen it until it was put in the record—but if smoke indicates fire, we may be facing a 4-alarm blaze in the near future. This is a memo of October 13, 1989.

Did anyone on this panel, Mr. Robson first, did anyone on this panel discuss the devastating concerns about illegal payments, after-sales service, diversion of funds for nuclear related equipment with the Department of Justice?

Mr. Robson, did you?

Mr. ROBSON. When we were considering, in the framework of the NAC, Mr. Vento, the 1990 program for Iraq, in addition to the examination that was going on by the Agriculture Department, our general counsel's office contacted the U.S. attorney's office in Atlanta, which was handling the BNL investigation, to ask them what information they had with respect to the investigation that would be useful for us to know in the context of the NAC decision that we had coming up.

So we did contact them, yes.

Mr. VENTO. Mr. Eagleburger.

Mr. EAGLEBURGER. With regards to this memo?

Mr. VENTO. Yes, with regard to this memo.

Mr. EAGLEBURGER. I don't know whether the Department of State contacted anybody or not.

By the way, that is not an Agriculture Department memo, it is a memorandum of conversation which originated in the State Department.

Mr. VENTO. So you did not—you did not contact the Justice Department; apparently haven't seen this memo before?

Mr. EAGLEBURGER. No, the Justice Department had been contacted, but I don't know if they were contacted with regard to this memo.

Mr. VENTO. Mr. Crowder.

Mr. CROWDER. We discussed this memo earlier at some length, Congressman. I had not seen that memo until it was in the documents. That was a State Department, as Secretary Eagleburger indicated, a memorandum of a conversation of a meeting that the person writing the memo had had with Agriculture Department people, and that was not the report that I got of the meeting.

And Mr. Brosch is here on the next panel and can talk about that.

Mr. VENTO. Well, we will ask him questions then about it.

One other matter, Mr. Eagleburger, I assume at this meeting on November 8, 1989—I don't know that the State Department made a comment here. It says the Department of State representative at that meeting stated that his comments reflected the views of the State Department, which believed that the GSM Program for agriculture was critical to the United States-Iraq relationship; and he noted that in the National Security Council Decision 26, that the President had called for improvement of United States relations with Iraq and bilateral trade expansion and offered the CCC Program as a good means to achieve that end.

Is that particular document, National Security Council Decision 26—apparently, it is the policy path of the Bush administration on how we were going to improve relations in that part of the world with Iraq. Has that been made public?

Mr. EAGLEBURGER. No, it has not, sir. I refer to it in my opening statement, but it has not been made public. It is, I think, one of the documents that Chairman Gejdenson has asked to be declassified.

Mr. VENTO. Can you explain to us in any detail at all about that particular policy? Are you at liberty to do that?

Mr. EAGLEBURGER. I can go through it a bit with you if you want, but in my opening statement there is a fairly, there is a summary of what it has to say with regard to the issue of Iraq and the general Persian Gulf. I can repeat that, if you want.

Mr. VENTO. Well, I can read your statement, Mr. Eagleburger.

At this meeting, Mr. Robson, did you convene this meeting or did Treasury convene this particular NAC meeting?

Mr. ROBSON. Treasury did, Mr. Vento.

Mr. VENTO. One of the statements here, I note you raise several questions, and I am reading from page 828 of the *Congressional Record*. You talk from the standpoint of having to defend the program from hostile congressional Members and the media, and the worst-case scenario involving criminal conduct in connection with the program on the part of the bank exporters or the Iraqis.

Why would that—I think that the suggestion here today is that somehow the committee has been—you know, Congress didn't have anything to do with this particular meeting, but yet you are already anticipating these type of questions could arise.

Mr. ROBSON. As I said in my testimony, Mr. Vento, we knew the BNL investigation was going on. We did not have at that point, as several of the others have said, evidence of Iraqi involvement or impropriety with respect to the CCC Program. Sitting back there in November 1989, we did not know ultimately what might come out of the BNL investigation. So that was a risk that we recognized, weighed, and took into account as the recommendation of NAC was made.

Mr. VENTO. Well, thank you.

Mr. Crowder, you say there is no proof that the CCC guarantee commodities were delivered to third parties. Isn't it true, however, that the CCC records regarding shipping and actual destination of commodities is so bad that it is almost impossible to determine if there were diversions?

Mr. CROWDER. I don't know that the records are that bad. We have, as I indicated earlier, strengthened the rules in terms of documentation of arrival over what we did have, Congressman.

Mr. VENTO. Mr. Eagleburger, on what date was the document, the NSD 26, issued; do you know?

Mr. EAGLEBURGER. I can get it for you in just a second.

Mr. VENTO. So you think the records are adequate; that they are not that bad; that you would have been able to determine whether or not there was diversion?

Mr. CROWDER. At that time, no.

Mr. VENTO. At that time, no.

Mr. CROWDER. No. With the procedures we have in place now, in terms of—

Mr. VENTO. Well, we are talking about the instances here. Now, you have better procedures in place; right?

Mr. CROWDER. That is right.

Mr. VENTO. Mr. Eagleburger.

Mr. EAGLEBURGER. October 2, 1989.

Mr. VENTO. Mr. Chairman, one of the things that strikes me about this, and Mr. Crowder, is the statements that were made here at this October 8 meeting. The Department of Agriculture almost sounds like a promoter or someone who is more interested in what the economic impact would be on the U.S. trade in maintaining customers than it does about what the security concerns are.

Are you aware of this particular document? Were you the participant at the NAC meeting that is responsible for these particular views I am reading here?

Mr. CROWDER. I was the plus one. Deputy Secretary Parnell was the primary spokesman for Agriculture at that meeting.

Our primary responsibility in this program is to promote the sales of agricultural products, and State and other people bring the views to the discussions, Congressman.

Mr. VENTO. Well, Mr. Chairman, I just would suggest that, obviously, things fell between the cracks, in hindsight. But it is almost,

you know, inevitable, when you have these types of directives going on.

I am told, Mr. Crowder, that the manifest for many of the shipments that we are talking about here were in Arabic. Have they ever been translated?

Mr. CROWDER. I think what you are talking about was a reference to my comments in the testimony which says that when our administrative review team went to Baghdad to review shipping documents there, that they were in Arabic and there were thousands of them. I am not sure what you are referring to.

Mr. VENTO. It is in your administrative review, I might say. That is what I am looking at. I am being directed by staff here, but it says the U.S. team attempted to check and audit the huge number of documents, all of which are in Arabic or Turkish. The USDA requested the Government of Iraq to provide samples of specific shipments of the truck manifests, the Customs clearance documents, and the Customs ship/truck lists. These samples were provided and to be translated and reviewed.

Have they been translated? And my question is, are they still—do we still possess these records?

Mr. CROWDER. The answer is yes, we possess the records. The answer is no, they have not been translated.

Mr. VENTO. Why not? If they have never been translated, how did you use the information in terms of monitoring at that time?

Mr. CROWDER. Again, I go back to the context of the testimony and the administrative review, Congressman. The purpose of the administrative review was to determine if there were evidence of program wrongdoings there. We did find evidence of program wrongdoing that—could I finish—that did not require us to have those documents translated to not go forward with the additional program.

Mr. VENTO. But you made a conclusion at the end of this document that I have in my hand that there was no diversion. I mean, here is the same case here.

While in Baghdad, the USDA team also met with representatives of the Gearbulk-led joint venture who told us they kept the computerized records of each shipment received, and of the trucks that were loaded from each ship. These records are maintained in their offices in Amman, Jordan, and they offered to make these records available to the USDA at its request.

Have you ever requested those records? No? The answer is no? Mr. Crowder, you will have to answer for the record.

Mr. CROWDER. Rather than going through this, Kevin was on the team, and I think it would be easier and clearer and shorter in terms of time.

Mr. VENTO. I know, but the answer is no. No, you did not do it.

The conclusion in the administrative review is that you uncovered no evidence to suggest there has been diversion of commodities sold to Iraq. The lack of proof of arrival in either bank or exporter records appears to be linked to the complexity of the over- and shipment system that Iraq has developed after its Bassra port was closed during the height of the Iraq-Iran war. It appears, based on the review of sample records, Iraq maintains records to establish proof of arrival for its GSM purchases.

So I mean, obviously, you couldn't translate it if you didn't have the records in your possession. It seems to me this is a large loop-hole here. If one is going to seriously pursue this, clearly, this sort of element where you have a suspicion, you have a volatile situation. Obviously, we knew of an arms buildup and a conflict going on here, that these—we certainly should have had answers, given the background and the record.

Mr. Chairman, my time has long expired.

The CHAIRMAN. Mr. Slattery.

Mr. SLATTERY. Thank you, Mr. Chairman. I know the hour is late and you all have been generous with your time today, and you are probably anxious to get out of here, so I will attempt to be brief.

This morning I asked two questions, why and who. And we have had a lot of discussion today about who was responsible and what was going on and, basically, what I think we have learned today is that the Secretary of Agriculture, Mr. Yeutter, was supportive of this policy, advancing it, and the Secretary of State was apparently supportive also and advancing it, Secretary of the Treasury was apparently also supportive of it and the President was supportive of this policy.

I mean, isn't that true? Is that safe to say? All of you agree with that?

Mr. EAGLEBURGER. Yes, sir.

Mr. SLATTERY. Help me understand why we are doing this. The public out here is listening to this and they are trying to understand why we were using our tax dollars to in any way assist a government headed by a man like Saddam Hussein, who we knew an awful lot about, and we don't need to repeat all the heinous crimes that he committed and all the outrageous things he was doing, and we were in bed with this guy. Apparently, President Bush thought that he could be a nice guy to Saddam Hussein and make a nice guy out of Saddam Hussein.

Reminds me of Roosevelt and Stalin at Yalta. President Roosevelt thought he could be a nice guy to Stalin and make a nice guy out of Stalin. He was wrong and it looks like President Bush was wrong in thinking he could make a nice guy out of Saddam Hussein.

But out of this desire to transform this monster and this evil sort of guy into a good guy, there were also some other winners in this policy. I mean, there were people making money in this deal, and I would like to talk a little bit about that, if we can.

Now, *U.S. News and World Report* reported that lenders were complaining. Referring to large banks in this country—recalls a New York banker who had extensive dealings with Baghdad said, basically, if we didn't extend new credits they wouldn't start paying on the old debt.

Mr. Robson, I am just wondering, did you have any evidence—or any of you, for that matter—have any evidence that outstanding loans were in danger of not being repaid unless these new CCC credits or Eximbank credits were extended? Was there any consideration given to extending these new credits so as to encourage Saddam and the boys in Iraq to make payments on existing debt?

Mr. Robson, can you help me understand this?

Mr. ROBSON. I think that in the overall consideration of credit-worthiness, if I remember back that far, Mr. Slaterry, was that if you stopped extending credits, who knew what their reaction might be.

In other words, there was evidence that they were, as I said earlier in my testimony, in bilateral negotiations of one sort or another respecting their outstanding debt with other creditors.

I don't remember a bank source saying that, but I can't, I couldn't swear to you that no bank source did say that. And that is a perfectly natural thing to consider.

Mr. SLATTERY. Mr. Eagleburger, would you like to just help me understand this? I am trying to understand why these things happen.

I have been around government long enough to know things don't happen by accident and there are forces that move to make things happen. I want to understand why this happened.

Mr. EAGLEBURGER. In trying to answer the specific question you raised at the end here, in going through all of the State Department documentation, I don't see any evidence in what we have of any concern about commercial bank credits and so forth and whether those were being paid off.

I have some real problems with—and after we have finished this particular subject, I would like to come back to your description of why we did the program, and to discuss that with you for just a minute. But in terms of this specific question, I didn't see any evidence in any of our documents of any concern for—our concerns were foreign policy concerns, and that is what I would like to discuss with you for a minute when you finish this.

Mr. SLATTERY. OK.

Mr. Crowder, help me understand what was going on here with the banks.

Mr. CROWDER. I had—personally, I had no—

Mr. SLATTERY. You have no knowledge of this?

Mr. CROWDER. No conversation with banks. But, in fairness, let me be up-front with you in terms of this issue of repayment and the threat of not repayment.

But let me go to the issue of why we were doing this. From our standpoint, as you have seen and heard from my testimony, this was an important market, and the commodity groups, American agriculture and congressional supporters, wanted this to go forward.

But in the meeting I had with the Iraqis on, I think it was October 6, it was that weekend when I, we first announced the, first offered them the \$400 million. In that meeting, there was a threat that if you don't give us \$1 billion for next year, it could affect your payments this year. And I said, look, if you expect me to send good money after bad money, just no way; that we are not in the business of doing that.

Mr. SLATTERY. Let me share with you some notes we have from an NAC meeting of October 3, 1988. It is interesting, because Treasury stated, although Iraq's oil earnings had risen from \$12 billion in 1988 to a projected \$14 billion in 1989, its military expenditures had also increased. Treasury added that Iraqi demands

for BNL to honor its fraudulently issued letters of credit were evidence of how desperate Iraq was for foreign exchange or credits.

Treasury continued by saying, it was well known in the international financial community that Iraq only paid those creditors from which it received new credits, and viewed in this manner, the CCC could be contributing to a Ponzi-type scheme. Finally, Treasury said, Iraq's refusal to accept the IMF Program or reschedule its debts within the framework of the Paris Club, meant if Iraq did default on the CCC guarantees, the CCC could not reschedule them because the United States Government could not engage in reschedulings outside the multilateral framework.

I also have some information indicating that the folks over at the Eximbank also generally viewed Iraq rather skeptically with respect to their procedures and their attitude about repaying things. Let me read some of this.

Iraq has an attitude problem regarding foreign debt. Iraq only fully repays creditors who offer large new loans. If creditors don't offer new loans, Iraq simply fails to pay. Eximbank analysis.

And then, to go on, it says to sustain the benefits of playing one creditor off the next, Iraq will avoid multilateral Paris Club rescheduling and continue to use default as a device to secure continued financial assistance. Iraq has demonstrated a clear unwillingness to adopt normal debtor-creditor relations. Iraq is more aptly compared to Peru, which pays when it wants to.

Well, you know, I read over all this and then I just wonder why the Eximbank prepared this vehement report outlining nine myths about Iraqi creditworthiness and then refuted them all individually.

I am just curious. Was this standard practice for the Eximbank, John?

Mr. ROBSON. Eximbank was at the NAC meeting we had, Congressman Slattery, and made the point first that they had not taken Iraq off their cover, although I think at that point they were some \$10 million or \$12 million behind.

I wasn't aware of or privy to the conversation that Dick Crowder had back in October, but if the suggestion is that the decision or the recommendation was made to further the credit simply because that was the only way of getting the Iraqis to continue to pay, there is no basis for that; that that simply was not in the discussion that went on at the NAC meeting.

Mr. SLATTERY. Well, obviously, though, an Eximbank analyst had concluded that this was the game Iraq played.

Let me read some more stuff. This one is from a January 23, 1989, Eximbank credit risk analysis of Iraq, and it is entitled "Alert Report." Now, this is all well in advance of this last decision to extend another \$1 billion of credit to Iraq through the CCC Program.

This is called Alert Report; Iraqi payment situation further deteriorates. It says that the banks are fully aware of Iraq's severe payment problems vis-a-vis official creditors—I assume this is the international banking community—and will seek concrete legal mechanisms to ensure they become Iraq's new favored creditors. Iraq's payment problems, related to its low, uncertain oil revenues, are likely to continue. In the heady days following the cease-fire,

Iraq was convinced oil prices would immediately rise to \$18 per barrel. Since then, reality has set in and oil prices plunged to \$11 or \$12 a barrel.

The point I am making is these decisions to extend these credits were being made in an environment where the banking community generally understood that Iraq was not a good credit risk, and Iraq played the same games that Peru played, and Iraq was apparently playing this game of we will pay you some more money if you give us some more money. It was extend us some more credit and we will pay a little bit of interest. It is a game a lot of people have played with creditors through the years, and it looks like Saddam and the boys had this down to an art.

We got suckered a little bit here, didn't we, or not?

Mr. ROBSON. The fact is that following the extension of the credit we were paid more money. We reduced the exposure. They were current until we essentially went to war with them. And perhaps they would be current today if we had not gone to war with them. But the point is that we acknowledge, in my testimony and in Dick Crowder's, that their creditworthiness was an issue.

If you are suggesting that looking back on it now, and after a war, if we had known all that in advance, we wouldn't have extended the credit, I agree with you. But the fact is that the day we looked at the credit issue, they were current. There were pluses and minuses on the credit, but they were current.

Mr. SLATTERY. Mr. Robson, the point I am making to you is the point I read about the Ponzi-type scheme. This is language that comes directly from the Treasury Department.

Your people were writing this stuff and telling you this was a Ponzi scheme that was going on here where we were extending credits that would be in turn used to pay us back money. It is a little like this Albania contribution to the superconducting Super-collider I have been reading about these days.

Mr. ROBSON. The fact is they were current. The fact is they paid, after the credits were granted, and Lord knows might still be paying if we had not gone to war.

Mr. EAGLEBURGER. Mr. Slattery.

Mr. SLATTERY. Let me ask one last question and then I will come back.

The one thing I find troubling—and I could visit an hour on this, but we don't have the time—but one of the other things I find troubling about this is, apparently, the CCC Program was being used in such a way that the U.S. Government was being overcharged for the grain that we were selling. And the evidence indicates that in some cases this must have been as high as \$20 to \$40 a ton, according to information that I have.

Now, is that bad information, and how can that happen? How can a program be administered in such a way, Mr. Crowder, where, you know, we are not accounting for this? We are loaning people money to buy wheat from Kansas.

OK, I should like that program, even though I voted to terminate it for Iraq, and I am darned glad I did. But what I now learn is that we extend all this credit, and we don't know how much grain we actually sell them that we have financed. This doesn't make

good banking sense to this country boy. Can you explain that to me?

Mr. CROWDER. OK, I will be glad to.

Let me comment once more on the decision to go forward with the credit and your Ponzi scheme. If you buy your premise that that was the case, then you buy the argument that if we had not gone forward with the 500, they would have cut us off right there. That is the premise.

We went forward with the \$500 million. They used \$392 million; paid us \$847 million. We didn't get snookered in that deal. We got money back.

Mr. SLATTERY. Let me play this back another way. I give you \$500 million, you give me \$386 million. I give you \$500 million, you give me whatever it was, \$300 million some back.

Mr. CROWDER. They gave us \$847 million and we gave them \$392 million.

Mr. SLATTERY. In anticipation of getting the rest, perhaps, OK?

Mr. CROWDER. All I am saying—

Mr. SLATTERY. Face it, we were playing quite a game here with these folks.

Mr. CROWDER. We were not playing a game, and, as I indicated in my testimony, that in looking at the decision to go forward with this, and we understood the credit risk, as Secretary Robson has testified. I mean, there were credit risks. There are market development issues and others that we look to also. We did, and, in essence, got money back right up until—

Now, with respect to the overcharging. We did find that, and it was a weakness in the program.

Mr. SLATTERY. How much money was involved?

Mr. CROWDER. I don't know.

Mr. SLATTERY. According to my information, it was hundreds of millions of dollars.

Mr. CROWDER. I don't think it was that much. But, again, that was a problem.

Mr. SLATTERY. Could you tell me how much it was for the record?

Mr. BROSCHE. I can.

Mr. CROWDER. That was primarily in the 1985-1987 period, from the evidence we found there, as I indicated in my testimony, and, as in the administrative review, was in the Entrade transactions we found in New York.

[The information referred to can be found in the appendix.]

Mr. SLATTERY. Let me just observe, if I can, what you are telling me now, is that there is a significant amount of money that was unaccounted for. I mean overcharged.

Mr. CROWDER. There was a significant amount of money overcharged in terms of prices during that 1985 to 1987 period.

Mr. SLATTERY. Now maybe Mr. Eagleburger would like to change a paragraph of his testimony from earlier today.

OK, go ahead.

Mr. CROWDER. That was in the 1985 to 1987 period where those high price transactions occurred. There was a weakness in the program and we corrected it. The weakness in the program is, and you used the case of wheat as an example, in wheat there was not evi-

dence of high prices, because we had a price review of all transactions on the Exim Export Program.

There was none. The weakness in the program was we didn't have a price review on the wheat program. There were some other weaknesses, and we have corrected them, not only for the transactions involved in the \$500 million that went forward, but for all transactions across the board. I have just to tell you it was a weakness in the program.

Mr. SLATTERY. So it is conceivable, and you will get with me later, we probably know there were millions of dollars that was unaccounted for, lost, misappropriately used, whatever term you want to—

Mr. CROWDER. Well, in that 1985 to 1987 period, all of that money, because of the scheduled repayments, was repaid back, because it is a 3-year period. And in the 1985 to 1987 period where those Entrade transactions occurred—

Mr. SLATTERY. The reality is that during that period of time, because of the sort of inadequate accounting procedures and monitoring procedures involved, it is conceivable that significant sums of money could have been diverted for the acquisition of arms or anything else. All money is fungible in the real world.

Mr. CROWDER. Money is fungible and there were high prices, as you will see in the administrative review, and all of a sudden there was a program change we had to make and we should have had earlier. We needed to make it and we did make it.

Mr. SLATTERY. Mr. Eagleburger, I want to be fair to you.

Mr. EAGLEBURGER. I have lost track of it now. Let me just—let me make three quick comments.

First of all, things are conceivable, and I didn't deny that in what I have said. All we have argued is there has been no evidence of it, particularly in regard to the purchase of military equipment.

Mr. SLATTERY. I had a question on that point. Your statement is very carefully worded, and I commend you for that. You limit it to the U.S. attorney's investigation and you limit it to the Ag Department's investigation, but what you didn't specify is whether there were others investigating: the CIA, the DIA.

Were there other agencies of government that had knowledge of any of this? You didn't specify.

Mr. EAGLEBURGER. I am just talking here about the investigations, and so far as I know, that is all I know.

Mr. SLATTERY. So you had no knowledge of any government agency that knew that this money was being diverted?

Mr. EAGLEBURGER. No, we have done our best to find the information.

The second point I was—oh, let me just say, I hope Mr. Brosch gets a real chance to talk about the October 13, 1989, document. It is terribly important, and without trying to dwell on it here, I think up to this stage it has been badly misunderstood, and I really hope in the next panel you give him a chance to describe our concerns with that document.

The third issue was simply a question with, and I just don't want to waste your time with it, but it is a question of—let me reinforce one more time that from the State Department's point of view—disagree with it, that is not the issue—but please understand our

concern with and support for the CCC Program was our belief, not that we were going to make a friend out of Saddam Hussein or anything of the sort.

We understood, we think, how awful he was, it was one of the few tools we thought we had to try to moderate his conduct. It didn't work. But at the time, and I am not even prepared to say, as some others have, that, in hindsight, we should never have done all this. I have lived through too many foreign policy problems where you have to live with them at the time, and looking back later it is a little difficult.

Franklin Roosevelt cut off oil to Japan and it was the proximate cause of the bombing of Pearl Harbor. That doesn't mean it was a wrong decision on his part. Some things don't work and some things do.

Mr. SLATTERY. Mr. Robson, one last question. If you could provide me and the committee with a list of the banks in this country that had loans outstanding to Iraq during this period of time, that would be helpful. Could you provide, or the Treasury Department provide that information?

Mr. ROBSON. We will get you what we can, Congressman.

Mr. SLATTERY. That would be helpful.

[The information referred to can be found in the appendix.]

Mr. SLATTERY. Thank you, Mr. Chairman. You have been generous in your allotment of time to this Member today.

The CHAIRMAN. Thank you, sir.

Mr. Sanders.

Mr. SANDERS. Thank you, Mr. Chairman, and thank you, Mr. Eagleburger, and your associates, for your indulgence on this long afternoon.

I think Mr. Eagleburger, some hours ago, indicated correctly that every administration makes its share of foreign policy mistakes, and I think you are right. I think what is important is to determine what we can learn from our mistakes.

There are probably schoolchildren watching the C-SPAN program who are learning today in school that the United States believes in democracy, we believe in human rights, we are opposed to governments which despise their people, which torture their people, and, sometimes, in the midst of discussions like this, we sometimes confuse the forest from the trees.

Maybe very, very briefly, if you could, explain not just to this committee, but to the schoolchildren of America, why the U.S. Government would provide billions of dollars in agricultural credits to a person who is, as we all know, an evil and terrible dictator, and then maybe we can go on from there and see what we might have learned about that policy.

Mr. EAGLEBURGER. I am not sure how shortly I can do it, Mr. Sanders, but I will try. And I start by saying, yes, he is an evil and terrible dictator and I think we understood that from the beginning.

It has been U.S. policy for decades in Democratic and Republican administrations that it is—again, right or wrong—that it is essential to the United States' security that the Persian Gulf be open and not under the domination of any one overwhelmingly powerful nation. That is, in part, and in large part, why we leaned as we did

during the Iran-Iraq war toward Saddam Hussein, because our grave concern was that Iran, if they won that war, would be all powerful in the area and would present us with very serious strategic problems.

When the war was over in 1988, we were faced with a somewhat opposite situation, of an Iraq that may not, that clearly, potentially, at least, was the dominant power in the area. Our concern was how do we find ways, evil as he is, to try to attempt to influence and moderate his behavior.

And as I tried to describe in my opening statement, we looked at several alternatives and we came to the conclusion that the best way to try to deal with this phenomenon, was, in fact, to be tough with him where we could, but to recognize—and that is on human rights issues and so forth—but to recognize, at the same time, that our ability to influence his actions was, at best, very limited. And to try to find those areas where some leverage might be available to, in fact, affect the way he conducted himself on things like human rights issues. How do you influence the fellow?

As I say, we rejected the idea of closing him off, sanctioning him, and for several reasons. I am sorry, it takes a little longer. For several reasons: First of all, because we understood that we had no support with regard to our European allies to a policy of trying to isolate him, and we would not have had support.

Second, because we had no support and, in fact, strong arguments from our friends, the Arab friends in the area, precisely along the same lines; that you cannot isolate him, you have to try to moderate his behavior. So if we had done the closeoff, if we tried to isolate him, one thing I think I have learned in the number of years in this business, is that sanctions applied by one country alone, in a situation like this, are of very little effect. They do things like make it clear that morally we object to their hideous human rights behavior; they don't necessarily change his behavior.

What we tried to accomplish—and I have said 15 times today it didn't work—but what we tried to accomplish with this policy was to develop those areas whereby providing him, for example, CCC guarantees—not credits; guarantees—we would be in a position to influence his behavior. For a while we thought—and I tried to describe some of those in the statement—for a while we thought we were seeing some success in that regard.

I don't want to repeat them for you now, they are there. In the last analysis, it did not work.

Let me make one more point and I will shut up, which is, in our heads, throughout all of this, Congressman Sanders, there was also, and there still is, the issue of the Middle East peace process and the issue of Israel. And, in part, when we deal with people that none of you like, whether it is Assad, or whoever it is, in our heads, to some degree, has got to be the issue of how best do we influence moderate behavior with regards to Israel and not in the Iraq case; how do we bring people to the negotiating table with regard to Israel?

We had some success with this. The only point I would make with regards to all of this is, in this trying to figure out the pluses and the minuses, not only with regard to the Persian Gulf but strategically, I think is important, but there was also the question con-

stantly of how best to influence events and behavior with regard to Israel and the Middle East peace process.

Mr. SANDERS. Let me jump in for a moment.

The problem I have, and the reason I asked you that rather simple, straightforward question is, as you well know, at exactly the same time the United States was providing this help to Mr. Saddam Hussein, where were all of the people of Nicaragua? This billions of dollars of help to Saddam Hussein, where were all of the people of Nicaragua? Because we didn't feel they were democratic enough, and some of us have a problem in understanding that conflict in policy.

Let me ask you another question, because I want to make sure that we learn something from our history and what recently happened.

You mentioned Mr. Assad of Syria. Is Mr. Assad of Syria still regarded by the State Department—I don't know how you characterize him—as an international terrorist?

Mr. EAGLEBURGER. I am sure that is right; isn't it? Yes.

Mr. SANDERS. He still is.

Here is my concern. Maybe you can reassure me and the American people. How do we know, Mr. Eagleburger, that 2 years from now this committee or another committee will not be talking to you or another representative of the State Department going through exactly the same discussion we are having today?

If you have an international terrorist in Mr. Assad—let me ask you this question: How much money did the Assad government get as a result of the Persian Gulf war?

Mr. EAGLEBURGER. I don't know.

Mr. SANDERS. I have heard, and this is speculation, tell me if I am wrong or not, that in one way or the other, through laundering or however, they ended up in that war with billions of dollars in money they didn't have when it started.

Mr. EAGLEBURGER. I don't think that is correct, but I will get you an answer for the record.

[The information referred to can be found in the appendix.]

Mr. SANDERS. Does anybody want to comment on that? I have read that. Maybe it is wrong; that for their supporting our efforts in the Persian Gulf war, they enriched themselves?

Mr. ROBSON. I don't have any information.

Mr. SANDERS. Will you deny that?

Mr. ROBSON. I have no reason to suspect it is right, and I am leaving it to Secretary Eagleburger to get that for you.

Mr. SANDERS. Anyone else care to comment?

Mr. CROWDER. I don't know.

Mr. SANDERS. Let us see if we can learn something. We all make mistakes. Mr. Assad, in many respects, is an equal of Mr. Saddam Hussein.

Mr. EAGLEBURGER. In some respects.

Mr. SANDERS. Some respects. I think we would all hope we don't have to have this discussion 2 years from now regarding Syria. That is an issue that concerns me.

And maybe the last question that I want to ask has to deal with an issue that others have touched upon, and that has to do with the possibility that military equipment from the United States

ended up in Iraq. So my question to you, Mr. Eagleburger, or anybody else, is are you aware of any third-country transfer of United States military equipment to Iraq, besides the 1986 Saudi Arabia transfer brought out recently in the *Los Angeles Times*?

Mr. EAGLEBURGER. No. Just 1 minute. Just let me doublecheck.

Just ask me the question one more time so I make sure I am giving the right answer.

Mr. SANDERS. OK. Are you aware of any third-country transfer of United States military equipment to Iraq besides the 1986 Saudi Arabia transfer brought out in a recent *Los Angeles Times* article?

Mr. EAGLEBURGER. If I understand the question, no, I am not aware of anything else. But—no, I am not.

Mr. SANDERS. You are not. Do you take issue with the *Los Angeles Times* when they say that a source knowledgeable about the transfer said the Saudis sent Iraq 500 MK-84 bombers and a number of British Lightning fighter bombers to help Saddam escalate the air war?

This is quoting from the *Times*. "Three sources said the Saudis transferred the weapons with approval from unnamed U.S. firms."

Mr. EAGLEBURGER. I will have to get an answer for the record, but I am told, from behind here, this is all a classified issue, but that the Congress was notified at the time.

Please let me get you an answer in writing that is accurate.

Mr. SANDERS. So you are not commenting on the veracity of this statement today?

Mr. EAGLEBURGER. No.

[The information referred to can be found in the appendix.]

Mr. SANDERS. Do you or your sources know of a Presidential directive during either the Reagan or Bush administrations regarding the third-country transfer of United States arms to Iraq?

Mr. EAGLEBURGER. No.

Mr. SANDERS. You don't.

Last question. Do you have any knowledge of any Presidential directive during either the Reagan or Bush administrations regarding the arming of Iraq in general?

Was the CIA or any other United States Government entity directed to facilitate the flow of arms to Iraq?

Mr. EAGLEBURGER. Not to my knowledge, no, sir.

Mr. SANDERS. Does anybody else have any thoughts on that?

Thank you very much. Thank you very much, Mr. Eagleburger.

The CHAIRMAN. Thank you very much.

Gentlemen, you really have been more than patient and we are grateful. It remains only for me to say I have no questions for Secretary Eagleburger. The reason is quite simple, the documents speak for themselves, and what I have entered into the record. I am a man who has used the privileges of the House in my special orders, as well as during debates, but I am also one who is reverent of the word and the fact.

And the facts, as brought out here, clearly show that the documentation and what I said are not in any way compromised as to their authenticity and as to their propriety, both in the record, as well as even outside of the Congress. In other words, the documents and the history are clear, and so is the lesson.

The policy was wrong; it was pursued despite warning signs and despite Hussein's well-known brutality, and it failed. You admit it. The record shows, I think, why Hussein might well have misread what our reactions to his invasion would be. Our policy would be to woo him, not to warn him at all.

The Secretary has his own perspective, but it does not square with the facts.

Mr. LEACH. Mr. Chairman?

The CHAIRMAN. Yes, Mr. Leach.

Mr. LEACH. Let me just comment briefly, because I do want to correct a statement.

I don't want to leave an inference that is inaccurate. The chairman, in this gentleman's judgment, has not violated any rule of the House or any law of the United States. I want that on the record.

I would like to note, though, in terms of this particular inquiry, the sentence of Mr. Eagleburger—I think is something all of us ought to be all aware of—at the conclusion of his statement. He said, "we now seem to work in an environment of distrust rather than trust, of confrontation rather than cooperation, of accusation rather than fair inquiry."

In this regard, I don't think there is an American that hasn't more or less concluded that our policy toward Iraq was too accommodative and that it failed. There is a major distinction between issues of judgment and character or criminality, neither of which are at issue here. Coming back to the trust and distrust, the Congress of the United States has an inquiry ongoing about the House bank coming from the executive branch.

There is a lot of sensitivity up here about that. But because of that kind of inquiry of Congress, there is no right that this Congress should instigate an inquiry of the executive branch about issues that relate beyond policy grounds. I have raised this because an open-ended implication seems to be left in this committee that the majority wants to authorize an inquiry of a special counsel or prosecutor through the Judiciary Committee.

As far as I can see from the testimony presented today, evidence of misjudgment is clear, but there has been no indication of any nature of wrongdoing within the executive branch. Misguided policy, yes; wrongdoing, no. I only raise it because I do not want to see this Congress get in a tit-for-tat relationship with the executive branch on implications of criminality or lack of character. It is very important that as these people leave this table, that there aren't such things hanging over their heads.

There is nothing here that suggests that. They should not have to go out and hire attorneys. What has been suggested is a mistake in policy. If there are suggestions beyond that, I hope that the Chair can clarify them. To my knowledge the executive branch would be well advised to produce every conceivable document to every conceivable appropriate committee of this Congress as a way of clearing the air, and to be redfaced about it. Let's not respond as a Congress in ways that are inappropriate in our whole history of executive-legislative relations. That is the only concern this member has at this particular time.

The CHAIRMAN. Well, gentlemen, again, thank you very much, and we do have a panel following you, so we also have to apologize to them, but we do appreciate your response to our invitation.

The next panel will consist of the Honorable Ann Veneman, the Deputy Secretary, U.S. Department of Agriculture; Mr. Larry T. McElvain, the Director of the Commodity Credit Corporation, Operations Division of the United States Department of Agriculture; Mr. Alan C. Raul, General Counsel, U.S. Department of Agriculture; Mr. Kevin Brosch, Deputy Assistant General Counsel, Office of the General Counsel of the United States Department of Agriculture; Mr. Leon Snead, who is the inspector general, U.S. Department of Agriculture, who is accompanied by Mr. Craig L. Beauchamp. I believe that is the way they pronounce what we say Beauchamp, assistant inspector general for investigations, U.S. Department of Agriculture. So if I have mispronounced your name, I hope I will be corrected. Let me express our gratitude and also our apologies.

I noticed you were here through the whole morning, so unless one of the witnesses has a time problem, is there any objection to recognizing you in the order that I introduced you? If not, we will recognize Ms. Veneman.

STATEMENT OF ANN M. VENEMAN, DEPUTY SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Ms. VENEMAN. Thank you, Mr. Chairman. I am here today at the committee's request to respond to questions regarding the issues we have been discussing this morning; that is, the extension of credit guarantees in connection with sales of U.S. agricultural commodities to Iraq during fiscal year 1990 and the Department's administrative review of that program.

I think that in the statements, Under Secretary Crowder outlined in some detail the involvement of the Department of Agriculture, and so my remarks will not go into that kind of detail and be repetitive.

I would note at the outset, however, Mr. Chairman, that I would like to reiterate Mr. Eagleburger's remarks, that I do hope Mr. Brosch, who is here with us today, does have the time to clarify some of the questions that I think were raised during the last panel discussion about both the report and the meeting that took place in October and the memo that was written thereafter.

I served as Deputy Under Secretary of Agriculture for International Affairs and Commodity Programs from June 1989 until June 1991, working in that capacity directly for Under Secretary Crowder. As the Deputy Under Secretary in the international area, I regularly attended meetings with Under Secretary Crowder and the staff of the FAS, OGC, and so forth in which policy decisions regarding USDA's various export programs and international issues were discussed.

During the fall of 1989, I attended several meetings within the Department during which the topic of GSM allocations in connection with sales to Iraq for fiscal year 1990 were discussed. My role was to provide support and policy input to Under Secretary Crowder. I recall that prior to the beginning of fiscal year 1990,

USDA concluded that approximately \$1 billion in export credit guarantees should be made available in connection with sales to Iraq and made initial proposals for that amount at the staff level of the NAC.

I also recall, then, in October 1989, after USDA had learned of allegations that might arise out of the investigation of the Atlanta agency of the BNL, USDA decided to alter its proposal to provide that credit guarantees should be made available in two tranches, with an initial allocation of \$500 million and an additional \$500 million contingent upon the results of the investigation.

I also attended a number of meetings within the Department concerning USDA's internal inquiry with respect to issues that had been raised in the BNL investigation—an inquiry that concluded on May 21, 1990, when Under Secretary Crowder made public USDA's report of its administrative review and after which it was announced that there would be no additional credit guarantees made available in connection with sales to Iraq.

The work on the administrative review was conducted primarily by Kevin Brosch, an attorney with USDA's Office of the General Counsel, acting at the direction of Under Secretary Crowder. I attended several meetings within the Department in which Mr. Brosch reported on various phases of that inquiry. We were also briefed on a regular basis about the progress of the BNL investigations by Mr. Snead, the inspector general, and members of his immediate staff.

In February 1990, I was asked to attend a NAC staff level meeting at which USDA had been requested to brief the interagency group on the status of our administrative review and on our understanding of the status of the BNL investigation in Atlanta. I was accompanied by Mr. Raul, the General Counsel, and Mr. Brosch, who responded to questions from the other agencies in attendance.

I also attended the May 29, 1990, NAC Deputies meeting, which followed the Department's release, on May 21 of its administrative review, at which meeting it was discussed that no additional line of credit guarantees would be made available.

Mr. Chairman, that concludes my statement. I will, of course, be happy to respond to your questions and those of the committee.

The CHAIRMAN. Thank you very much.

[The prepared statement of Ms. Veneman can be found in the appendix.]

The CHAIRMAN. Mr. McElvain.

STATEMENT OF LARRY T. McELVAIN, DIRECTOR, COMMODITY CREDIT CORPORATION (CCC), OPERATIONS DIVISION, U.S. DEPARTMENT OF AGRICULTURE

Mr. McELVAIN. Mr. Chairman, committee members, I am here today to appear before you as a member of this panel. As this committee has requested, I will describe my role relative to the decision to extend export credit guarantees in connection with sales of agriculture products to Iraq. I will also describe my participation in the USDA administrative review of certain transactions under the Commodity Credit Corporation's credit guarantee programs. This

review was conducted as a result of allegations arising from the U.S. attorneys' investigation of lending activities by BNL.

Mr. Chairman, I am the Director of the CCC Operations Division in the Office of the General Sales Manager, Foreign Agricultural Service, Department of Agriculture. This was my position I held during the 1989 to 1990 period.

In this capacity, Mr. Chairman, I am responsible for the day-to-day operation of the CCC credit guarantee programs. The availability of credit guarantees with respect to sales of any particular country is approved at the departmental level. The responsibilities of my division are primarily operational in nature.

Although I was not involved in the process of presenting the Department's proposals to the National Advisory Council, I participated in a number of meetings in the late summer and fall of 1989 with the general sales manager and other FAS and USDA program specialists and officials in which the 1990 allocation of credit guarantees in connection with sales to Iraq was discussed. My presence at these meetings was based on my operational responsibilities for administering the credit guarantee programs.

My role was to provide information about the specific commodities Iraq was likely to purchase, Iraq's past repayment record, and similar operational issues. While I do not recall being asked to make a specific recommendation on a fiscal year 1990 allocation, the information that I provided supported the initial decision to continue a commercial export sales program to Iraq at a level equivalent to that of the previous 2 fiscal years.

As Under Secretary Crowder pointed out in his statement, Iraq had maintained a solid repayment record to U.S. financial institutions since 1983 and had become an important and diverse market for U.S. agricultural products by 1989. At the time, the enormous growth in this market was very important to the exports, following the sharp decline in our exports from 1981 to 1986.

I was also present in some of the consultations with Iraqi officials in early October 1989 regarding their request for fiscal year 1990 credit guarantees. Later, in mid-November, I accompanied Mr. Paul Dickerson, the general sales manager to Iraq, for further consultations in which Mr. Dickerson informed Iraqi officials of the USDA decision to proceed with \$500 million in credit guarantees, with the second tranche dependent upon the outcome of the BNL investigation.

My role in both of these consultations with the Iraqis was to answer technical questions on operational details of the program and not to make decisions or recommendations regarding the extension of credits or the size of the program.

With permission, Mr. Chairman, I will now describe my role in the USDA administrative review. I refer this committee to Under Secretary Crowder's statement concerning the briefing at USDA by Mr. Art Wade of the Atlanta office of the USDA's office of the inspector general and Under Secretary Crowder's subsequent decision to send Mr. Kevin Brosch and me to Atlanta in mid-October to try and learn more about the BNL investigation.

For the next few months after I returned, I was mainly occupied in operating the programs for which I am responsible, although I was present at a number of meetings involving discussions of

USDA's continuing efforts to determine whether program violations involving Iraq had occurred.

In October through December 1989, as a precautionary step, our offices issued several notices and warnings to all exporters participating in the GSM programs. These notices reminded exporters of the provisions in the regulations regarding after-sales services, their responsibilities to maintain adequate records and to provide access to these records, and the sanctions for false registrations and certifications.

Our offices also notified exporters of a new policy, instituted by Under Secretary Crowder, requiring USDA price review of every transaction. In April 1990, I accompanied Mr. Dickerson, Mr. Brosch, and an attorney from the State Department to Iraq to examine Iraqi records. Again, in the interests of brevity, I will refer your attention to Under Secretary Crowder's statement in which he outlines our findings.

Under Secretary Crowder decided not to grant any further credit guarantees for sales to Iraq until the conclusion of the BNL investigation, and to request a thorough investigation by the inspector general into possible program abuses.

I assisted in the preparation of the report on the USDA administrative review which was released on May 21, 1990. That concludes my statement, Mr. Chairman. I will be glad to answer any questions.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. McElvain can be found in the appendix.]

The CHAIRMAN. Mr. Raul.

STATEMENT OF ALAN C. RAUL, GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE

Mr. RAUL. Mr. Chairman and members of the committee, I am pleased to respond to the request of the committee for testimony on issues related to the Department of Agriculture's decision in November 1989 to extend credit guarantees in connection with the sale of U.S. agricultural commodities to Iraq during fiscal year 1990 and its administrative review of sales to Iraq.

In September 1989, my staff was advised about a criminal investigation of Banca Nazionale del Lavoro's Atlanta agency involving allegedly fraudulent loans to Iraq. This was brought to my attention because BNL held approximately \$720 million in receivables assigned to it by U.S. agricultural exporters that had been guaranteed by the Commodity Credit Corporation under its Export Credit Guarantee Programs, GSM-102 and GSM-103.

I was later briefed on my staffs' meetings with an investigator from USDA's regional office of the inspector general in Atlanta regarding BNL. Mr. Kevin Brosch in my office was assigned to follow up on the BNL investigation in Atlanta. Specifically, we were interested in any evidence produced in the Atlanta investigation that could be relevant to USDA's consideration of a fiscal year 1990 GSM Program for export sales to Iraq.

I attended numerous meetings regarding these matters and talked often with Under Secretary Crowder, Mr. Brosch, USDA In-

spector General Leon Snead, and other USDA officials, as well as my counterparts at other agencies. My role was to provide legal counsel to USDA policymakers and to make sure that we obtained accurate and relevant information about the BNL situation, and that the information we received through our contacts with the inspector general and his staff, the U.S. attorney's office, and through USDA's own administrative review was quickly and widely disseminated and evaluated.

As part of our due diligence on this matter, we sought to share our information and concerns as widely as possible with, and to learn as much as we could from, other interested agencies. To this end, I exchanged information with officials of the Departments of the Treasury, State, and Justice, the White House, the National Security Council, the Office of Management and Budget, and the Federal Reserve.

In late October 1989, because of concern and uncertainty over the allegations, the Department decided to restrict the GSM Program for sales to Iraq. Instead of extending \$1 billion in guarantees, USDA proposed a two-tranche plan in which only \$500 million in guarantees would be made available up front. A second \$500 million tranche was contingent, it would be held back pending the results of further investigations.

Indeed, USDA went forward with even the first tranche only after inquiring of the inspector general, whose investigators were working directly with the U.S. attorney's investigation in Atlanta, whether they had any evidence that would warrant not renewing the program.

We were specifically advised orally and in writing that there was not any evidence that would warrant terminating the GSM Program for exports to Iraq. This was not a question that could be taken lightly because of the possible impact on U.S. farmers and exporters, on the one hand, and the serious nature of the allegations on the other.

The two-tranche proposal was presented at a Deputies' level meeting of the National Advisory Council on International Monetary and Financial Policies on November 8, 1989, which I attended. After a discussion that weighed the possible risks as well as the benefits, the two-tranche proposal received interagency support. Additionally, through its attorneys, BNL had provided assurances that it would not accept any exporter's assignment of a CCC guarantee issued in this tranche.

USDA continued its inquiry into these matters after the November 8 NAC meeting, and I was kept generally informed. In January 1990, Mr. Brosch reported that his review of one exporter's records, Entrade International, Ltd., indicated that Entrade had received unusually high prices from the importer for sales of sugar, rice, and corn during the period October 1985 to February 1987.

It also appeared that Iraq had requested certain exporters to provide after-sales services and to pay Iraqi stamp taxes. To the extent that exporters actually provided these payments or services, but did not deduct them from the sales prices registered with CCC, the exporters violated GSM program requirements.

The high prices paid to Entrade seemed to mirror high prices paid by Iraq to other exporters during the same period. Because

these high prices and Iraq's involvement were unexplained, USDA determined that a review of Iraq's practices should be pursued, even before the results of the BNL criminal investigation would be available.

Dr. Crowder and I agreed to try to arrange for an USDA team to visit Baghdad. I contacted the State Department's Legal Advisor to seek his assistance in arranging the face-to-face inquiries in Baghdad. To ensure that our proposed inquiries in Baghdad would not jeopardize the ongoing criminal investigation in Atlanta, I also consulted with Justice Department officials and USDA's inspector general.

On April 16 through 23, 1990, Mr. Brosch, Mr. McElvain, and the Director of the CCC Operations Division of the Foreign Agricultural Service, and FAS General Sales Manager, Paul Dickerson, accompanied by a State Department lawyer, traveled to Baghdad to make inquiries of the relevant Iraqi officials and to review Iraqi records.

After returning, the team prepared a report in which they identified a number of GSM Program violations: The allocation of certain values between the price of the commodity and the price of freight, resulting in inflated registrations in several cases; the provision of after-sales services which appeared not to have been reported; and the failure to deduct from the registered sales value the amount of Iraq's stamp taxes paid.

Based on these violations, USDA determined not to make and did not make any additional credit guarantees available, subject to a full investigation to be completed by USDA's office of the inspector general and the conclusion of the BNL criminal investigation in Atlanta.

Also during this time, I accompanied Dr. Crowder to brief the leadership of the House and Senate Agriculture Committees about the results of our administrative review. We advised them of USDA's intention not to extend any further credit guarantees. We also informed other agencies and circulated USDA's draft administrative report. On May 21, we released the report to the public.

That concludes my statement, Mr. Chairman. I would like to thank you for your civility and courtesy in these proceedings, and I would be happy to respond to any questions you or the committee may have. Thank you.

The CHAIRMAN. Thank very much, Mr. Raul.

[The prepared statement of Mr. Raul can be found in the appendix.]

The CHAIRMAN. Mr. Brosch.

STATEMENT OF KEVIN BROSCHE, DEPUTY ASSISTANT GENERAL COUNSEL, OFFICE OF GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE

Mr. BROSCHE. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, I am here today in response to the committee's request for information regarding the decision of the Department of Agriculture, in November 1989, to extend credit guarantees in connection with export sales of United States agricultural commodities to Iraq during fiscal year

1990, and with respect to the administrative review conducted between October 1989 and May 1990 of sales to Iraq facilitated through these programs.

In April 1989, I began serving as an attorney in the International Affairs and Commodity Programs Division of the USDA's Office of General Counsel after 7½ years in private practice.

I had a very limited role in the decision to extend fiscal year 1990 credit guarantees in connection with sales to Iraq. I did not participate in the formulation of USDA proposals, nor in any of the consultations between USDA and representatives of Iraq. My involvement was to attend a meeting of the staff group of the National Advisory Council on International Monetary and Financial Policies on November 3, 1989. I was asked to attend in the event that other agencies asked questions regarding the investigation initiated in Atlanta in August 1989 by the U.S. attorney for the Northern District of Georgia into the allegedly fraudulent loan scheme being conducted by officials of the Atlanta agency of Banca Nazionale del Lavoro. I was also asked to prepare a detailed memorandum of issues arising from the BNL investigation for interagency circulation prior to the NAC meetings in November 1989.

I was thoroughly involved, however, in the USDA inquiry into Iraq's participation in the GSM Program which resulted in publication on May 21, 1990, of USDA's report of its administrative review. I attended the initial meeting on September 6, 1989, between USDA and BNL officials, in which BNL officials informed the Department of the investigation under way in Atlanta. I attended a number of meetings within the Department on this matter involving both program officials and representatives of USDA's office of the inspector general.

On October 5, 1989, Mr. McElvain, the Director of CCC Operations, and I met with Mr. Art Wade, an investigator with USDA's Atlanta regional office of the inspector general and received a briefing about the possible areas in which the Atlanta investigation might proceed. The details in that briefing are addressed in Under Secretary Crowder's testimony.

After the meeting with Mr. Wade, Under Secretary Crowder directed me to make additional inquiries into various issues relating to Iraq's participation in the GSM Program. The purpose of this inquiry was to determine whether there was any evidence to suggest involvement by Iraq or Iraqi officials in program violations that would alter our judgment about continuation of a Credit Guarantee Program for United States agricultural exports to Iraq. This administrative review was not a criminal investigation and, in fact, we had to take special care to ensure that nothing that we did interfered in any way with the criminal investigation being conducted in connection with the grand jury proceedings in Atlanta.

In conducting this inquiry, I initially traveled to Atlanta on two occasions in October 1989 to meet with the assistant U.S. attorney in charge of the BNL investigation and with officials of USDA office of inspector general's Atlanta regional office participating in that investigation. I also spent several days reviewing various bank records of past CCC transactions.

Based on the initial information I gathered during October, I proceeded in November and December 1989, to do a review of the

records of Entrade International, Ltd., a New York based exporter that appeared to be the target of the Atlanta investigation. I also reviewed CCC records of other CCC-guaranteed transactions registered by other exporters, the prices of those transactions, and USDA records regarding relevant market prices during that period.

In January 1990, I presented a preliminary analysis to Under Secretary Crowder which indicated that Entrade had received higher than expected prices for sales of sugar, rice, and corn during the period October 1985 through February 1987. The preliminary report also noted potential problems in such areas as after-sales services and stamp tax payments.

During the week of April 16 to 23, 1990, again at Under Secretary Crowder's direction, I traveled to Baghdad to review Iraqi files with Mr. McElvain and Mr. Paul Dickerson, the FAS general sales manager. We were accompanied by a State Department lawyer.

After returning, I wrote a report of the inquiry and presented it to Under Secretary Crowder. This report concluded that Iraq had been complicitous in several violations of GSM Program requirements. Those findings, and the basis for them, are set forth in the administrative review report, which has been a matter of public record since May 21, 1990, when the report was released.

Dr. Crowder ultimately decided not to extend further credit guarantees for sales to Iraq until the completion of the BNL investigation in Atlanta and a further investigation into Iraqi participation in the GSM Program, which he requested the office of the inspector general to undertake.

That concludes my statement, Mr. Chairman. I am prepared to respond to any questions you or the members may have.

The CHAIRMAN. Thank you very much, sir.

[The prepared statement of Mr. Brosch can be found in the appendix.]

The CHAIRMAN. Mr. Snead.

STATEMENT OF LEON SNEAD, INSPECTOR GENERAL, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY CRAIG L. BEAUCHAMP, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS, U.S. DEPARTMENT OF AGRICULTURE

Mr. SNEAD. Thank you, Mr. Chairman. I too, am pleased to appear before you today to discuss our audits and investigative activities relating to USDA's Export Credit Guarantee Program.

In preparing for this hearing, Mr. Chairman, you expressed interest in three areas that I might comment on. First, a listing and summary of our audits and investigations related to Iraq; an overview of the abuses uncovered related to Iraq; and an overview of our investigation of the BNL. With your permission, Mr. Chairman, I would like to provide my statement for the record and summarize my remarks here now.

The CHAIRMAN. Certainly, without objection. It so ordered, and I might advise the other witnesses that the same request is made in your case, your prepared text will be as you give it to us and it will appear after your oral statements, if you decide to sum up certainly, Mr. Snead.

Mr. SNEAD. Since 1988, the office of inspector general has conducted four audits and several criminal investigations related to the Export Credit Guarantee Program administered by CCC.

Our reviews, which included sales transactions to several countries including Iraq, identified four significant areas where improvements were needed in program controls and procedures. We found that commodities of foreign origin were exported under the program as United States goods; exporters received excessive credit guarantees by inflating sales prices on GSM commodities; after-sales services payments were made to Iraq; and CCC's process for assessing the creditworthiness of foreign banks needed strengthening.

In September 1989, we completed an audit to determine whether FAS's management controls were adequate to ensure that only commodities of U.S. domestic origin were included in exports guaranteed under the program. We also reviewed the reasonableness of sales prices charged by exporters.

Our audit disclosed that FAS controls did not prevent the sales of foreign origin commodities under the program. Exporters had included foreign products in 5 of the 11 commodities we reviewed, including planting seeds, soft drink concentrates, tobacco, and wood pulp. Most of the loans where we noted problems were for tobacco shipments which contained between 25 and 100 percent of foreign product.

We also noted in our audit that exporters' profits appeared to be excessive. For example, we noted profit margin ratings ranging from 28 percent on wood pulp to 420 percent on soft drink concentrates. We were unable to compare these profit margins to the profit margins of other exporters' non-GSM sales because exporters refused us access to their records for the commercial transactions.

We recommended that FAS not allow sales prices of commodities sold under the GSM Program to be greater than the prices of similar commodities sold outside the GSM Program, and that it establish a monitoring system for this process. FAS subsequently implemented a pricing system in early 1990. Also FAS has taken action to clarify the definitions of U.S. agriculture commodities, require certifications from the exporters as to commodity origin, strength compliance activities and require companies to grant auditors access to records of non-GSM transactions.

In March 1991, we completed a second audit but continued the evaluation of GSM sales prices. We compared the contract prices for several commodities, as reported by exporters to the futures prices of prevailing world prices for the same commodities. All of the commodities included in our review, with the exception of one, were shipped to Iraq.

Our audit disclosed 53 instances where the unit price reported by the exporters to FAS exceeded the world price futures price by as much as 15 percent more. For example, the differences were as high as 36 percent for sugar to 113 percent for rice. We concluded that the CCC loan guarantees for these sales could be inflated by as much as \$78.6 million.

We also found that exporters overstated port values or sales values in their applications to FAS, while including dollar amounts to cover after-sales services. These inflated amounts were guaran-

teed under the program. We determined that 11 companies made payments of cash or other goods totaling about \$2 million, of which \$1.9 million went to the benefit of the Iraqi Government.

Our later investigations confirmed that \$1.5 million of this amount related to after-sales services in sales of tobacco to Iraq. We determined that some of the after-sales services payments were for goods such as machinery parts, pickup trucks, forklifts, and other supplies. In other cases, we could not identify what was purchased with the payments.

We recommended that FAS notify exporters who included after-sales services in their port values that they would be held liable for any losses in the case of loan default. We also recommended that FAS initiate suspension or debarment actions for those exporters who overstated port values.

FAS officials agreed with our recommendations and stated that they would seek legal counsel in resolving these issues.

In December 1990, we issued another audit dealing with the blended issue. This audit dealt exclusively with the problems relating to tobacco exports to several countries, including Iraq. During this audit, we identified \$147 million in GSM guarantees obtained by 14 firms that included foreign tobacco or after-sales services. We estimated losses to CCC of about \$37 million due to Iraqi loans.

We opened criminal investigation of six companies that shipped tobacco to Iraq. The investigation confirmed that the companies made false statements in their GSM applications and submitted false, inflated port values to CCC. The six companies subsequently pled guilty to these charges and were fined a total of \$270,000 and agreed to pay up to \$1.1 million in restitution.

In our fourth review completed in January 1990, we examined the process CCC used to assess the creditworthiness of the foreign banks that issue letters of credit to foreign buyers, and found areas where improvements were needed. Based on our findings, CCC officials took immediate action to strength the approval process to a more in-depth financial analysis.

The final issue, Mr. Chairman, you asked me to address concerns our investigation of the BNL. Since 1989, OIG has been involved in this investigation. We are part of a task force, which also includes the U.S. attorney's office for the Northern District of Georgia, the FBI, the IRS, U.S. Customs Service, and the Federal Reserve Board. This task force investigation is ongoing and much of the evidence was gathered using the grand jury process. I am, therefore, precluded from making public many of the details related to this case. However, I can share some general information.

The investigation began in August 1989, when the U.S. attorney's office in Atlanta received allegations that BNL Atlanta was making unauthorized loans and keeping a secret book to document those transactions. When it was discovered that some of those unauthorized extensions of credit were guaranteed by the CCC, OIG joined the investigation.

On February 28, 1991, a grand jury indicted three employees of BNL-Atlanta, The Rafidain Bank, four Iraqi officials, and a Turkish-owned corporation in New York along with its Turkish manager. Of the 10 defendants charged, two BNL-Atlanta officials and a Turkish corporation pled guilty and are awaiting sentencing. The

former BNL-Atlanta branch manager is scheduled for trial in June. The other defendants remain fugitives.

One of the USDA-related abuses discovered during the BNL investigation was the payment of after-sales services to the Iraqi Government. We found a similar situation of which an exporter inflated the value of commodities shipped to Iraq under CCC guarantees in order to generate after-sales services to BNL-Atlanta officials and others.

Following the indictment, three other former employees of BNL-Atlanta also entered guilty pleas to offenses similar to those described in the indictment. The task force is continuing the investigation of persons and entities associated with BNL and Iraq. Some of these subjects were previously named as unindicted co-conspirators associated with the indictment. Other subjects surfaced based on the audit work performed outside of the task force by OIG's auditors, and the remainder were identified using other means. It is likely, Mr. Chairman, that these new investigations will not be concluded for many months.

That is my statement. I am available to answer any questions any members may have.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Snead can be found in the appendix.]

The CHAIRMAN. Mr. Beauchamp.

Mr. BEAUCHAMP. I don't have a statement.

The CHAIRMAN. You don't have a statement. OK. I was worried a little bit about the pronunciation, and if I pronounced your last name incorrectly, please correct me. Back home the name is well known and the folks there pronounce it Beauchamp, so that is the reason I introduced you as Mr. Beauchamp, and you didn't seem to object so I guess I pronounced it right.

Mr. BEAUCHAMP. You have the correct pronunciation. I pronounce it Beauchamp.

The CHAIRMAN. Mr. Snead, first let me say that I am sure I speak for every member of this committee; we are very grateful. My understanding is that you suspended or broke a commitment to travel to California in order to be here, and I am sure that this prolongation of the hearings and having you here at the tail end complicated it. So we are very grateful to you and the other panelists because we appreciate what it takes, and it is very important, though.

This is one in a series of hearings that began back in 1990, and at that time, we started out with some of the Georgia officials because of the peculiar nature of this particular banking agency. I remember or recall in one or two of the memos, Mr. McElvain, where apparently you were reported at one of the meetings as registering some doubt about whether or not the goods actually bargained for were not being diverted to Iraq and to some other destination. I believe you are quoted as suspecting perhaps there was a chance that maybe it was Turkey destinations rather than Iraq. We know that the Turkish firm Entrade has been one of the defendants, and I believe entered a plea bargaining type of agreement, if I am correct, Mr. Raul. Do you recall, Mr. McElvain, having expressed some

doubts as to whether or not these shipments were being diverted and, if so, what reason did you have to entertain that doubt?

Mr. McELVAIN. First of all, Mr. Chairman, I believe you are referring to the memo of October 13. Is that correct?

The CHAIRMAN. I believe so, sir.

Mr. McELVAIN. OK, I would like to point out, that I have never seen that memo, but I did read about the contents of the memo in the *Congressional Record*. And, Mr. Chairman, I can say that, no, I do not recall making any comments or having any thoughts during that meeting that there was a possibility of any of these commodities being diverted or bartered or whatever, for military equipment. I believe, in that way the memo mistated it.

In that memo, in my opinion, discussions of that meeting were misrepresented very badly.

The CHAIRMAN. OK, sir. Well, that was the memo that was signed off on, and I believe it was said that Mr. Brosch was present.

Mr. Brosch. Yes, Mr. Chairman. The meeting was held in my office as a matter of fact.

The CHAIRMAN. All right, sir. Mr. Snead reports that Entrade, as part of its plea bargain agreement, is paying BNL fines. Is the Department seeking any fines from Entrade? And I guess that question would be more properly directed to counsel or deputy counsel? Am I correct?

Mr. RAUL. The plea agreement with Entrade was handed down very recently; it was May 13. As part of the plea agreement, there is—there are restitutionary amounts that Entrade will pay as well as a criminal penalty, and also Entrade enters, as part of the criminal agreement, into a voluntary suspension and debarment from any further participation in U.S. Government programs.

Whether any further action beyond that will be taken is something that we will have to review. The plea agreement, as I said, is of very recent origin and must be studied, and whether any further action is either necessary or appropriate is something we would take a look at going forward.

The CHAIRMAN. All right, sir. Mr. Snead indicates in his testimony that the corporation agreed to pay a \$1 million fine and \$5 million in restitution to BNL in Rome, and that is the reason I was inquiring as to how the Department would be seeking some restitution as well.

You know, as I said at the outset, the processes that go to the heart of the policies that the Federal Reserve Board, as the monetary policy setting organization in our country, has a responsibility, cannot adequately and correctly gauge that policy if it doesn't have the knowledge and the statistics that are necessary.

There are several handicaps. We have a two-tiered or dual banking system with 50 State regulatory commissions. Then, we have the Federal and the Federal regulatory authority, some of which overlap, some of which conflict, and we have a lot of premises there, as you well know.

We have attempted in the last 3 years to try to target, and from our standpoint, offer the regulatory environment statutorily that would, in my mind, correct these deficiencies that I fear are very,

very real and present as a direct threat to the well-being of this Nation, financial and banking, standard of living.

These hearings are just part of a process that we begin almost immediately upon the assumption of the chairmanship. In December 1988, and formerly on January 3, 1989, we, of course, had the first chore of the domestic. But all along, the combination of the fact that a goodly percentage of the banking institutions in our country are not members of the Federal Reserve System and the added fact is that we have a contemporaneous problem of immense dimensions involving both domestic circulation of somewhere near or I guess \$1 trillion in this kind of money which is reflected in the transactions of BNL and other similar institutions that operate in our country.

We are the only industrial nation of any consequence that doesn't really have a screening or a regulatory oversight capacity to ensure that even as we are meeting here today, we don't have other yet to be detected, dozens of BNLs and BCCIs. We are going to proceed as I indicated earlier, in a proclivity that is also, I believe, a threat to the stability of our monetary system, and that is the offshore and the international, also speculative, transactions daily in the amount of about \$1 trillion. That is actually external international flows.

And in today's time when you have instantaneous electronic communication there is a real problem, and the Congress has not really answered the obvious need for reform and modernization since 1945. However, this committee has had great studies as early as 1969, for example, the Hunt Commission and its recommendations.

Last year, I introduced a bill at the beginning of the Congress on reforming the regulatory system and seeking a unified and responsible and independent body. But up to now and continuing to this day, these guaranteed aspects of credit are clearly within the domain of this committee. Under the rules and setting forth our jurisdiction, we have total and complete jurisdiction on all credit issuing and maintaining functions. That is why we have jurisdiction of Farmer Mac, for example, which the Department of Agriculture administers.

So with that, I want to ask one question having to do with whether or not at this time and prior to this time we have had any changes, Mr. McElvain, because I think you are the proper administrator to direct this question to.

Have any changes been made in the CCC Program since the BNL disclosures in 1989 and the scandal? That is to say: One, country limitations as to the total credit allocation; two, the percentage of programs to be allocated to a country and that kind of reform?

Mr. McELVAIN. There have been some changes made, Mr. Chairman. I wouldn't say that there have been changes made where we would specifically set limits at a certain percentage just to be allocated to a certain program. However, we have set up what we refer to as the reconciliation committee, and I am a member of that committee. It consists of a number of program managers, such as myself, the Treasurer of the Commodity Credit Corporation, some of our commodity division directors, and these matters are discussed among ourselves from a fiscal standpoint as well as from a

market development standpoint before the proposed program is presented to the National Advisory Council for their views. So that is a new system that we have put into place.

The CHAIRMAN. OK, sir. I will defer and maybe I will have to submit some of the questions in writing or we might have one or two later, but Mr. Leach.

Mr. LEACH. Well, I thank the Chair. Let me just say, I think the Chair's interest in the investigation into a quasi-governmental program that involves banking is very serious. There are clear violations or apparent violations of the U.S. law with regard to a private bank that is foreign owned. There has also been revealed today some sincere criticism about misjudgments in the government, but I would like to ask each of you a question I asked earlier.

From your perspective, Ms. Veneman, do you know of any wrongdoing within the Government of the United States?

Ms. VENEMAN. Absolutely not.

Mr. LEACH. Mr. McElvain.

Mr. McELVAIN. No, I do not.

Mr. LEACH. Mr. Raul.

Mr. RAUL. Absolutely not.

Mr. LEACH. Mr. Brosch.

Mr. BROSCH. No.

Mr. LEACH. Mr. Snead.

Mr. SNEAD. No, sir.

Mr. LEACH. Mr. Beauchamp.

Mr. BEAUCHAMP. No, sir.

Mr. LEACH. Mr. Chairman, I have no further questions.

The CHAIRMAN. Mr. Vento.

Mr. VENTO. Mr. Chairman, thank you.

Mr. Raul, you serve with the General Counsel of USDA. I understand, and we appreciate all of your testimony and patience today. It has been a—but I think it is necessary to go into some questions at this point.

On May 16, 1990, Mr. Raul and Mr. Crowder, who testified earlier, sent a memo transmitting the USDA administrative review to Timothy Deal, Special Assistant to the President at the White House and Senior Director of International Economic Affairs to the National Security Council.

The transmittal memo says, "Attached for your review and clearance is a draft report of the USDA administrative review of certain transactions in connection with the GSM CCC Program for Iraq."

Why did this document have to be reviewed by the National Security Council, Mr. Raul?

Mr. RAUL. Yes, sir. It did not have to be reviewed by the Council. It was also sent, as you will note from the May 16 document to which you refer, to the State Department, to the Justice Department, and internally it was sent to our office of inspector general.

The reason that we wanted to circulate this memorandum for comment and review is to ensure that it was—from the standpoint of information available to other parties—it was accurate, that—to the extent that there were agencies who were involved in the foreign affairs of the United States that they would have an opportunity to see the document, to make any comments on it, from the standpoint of the Justice Department in particular, it was sent to

the—I believe the Assistant Attorney General, Mr. Ed Dennis, to assure that there was nothing in the report that would compromise any ongoing criminal investigation, which was something about which we were always extremely judicious.

Mr. VENTO. But still—

Mr. RAUL. And I was advised by Mr. Dennis that the report was—that they had no objection to it, and similarly it was sent to the office of inspector general. So that there was nothing untoward about its being sent to the National Security Council or State Department or Justice.

Mr. VENTO. Well, do you send all such reports to the National Security Council, the State Department, the Justice Department?

Mr. RAUL. In point of fact, I try to circulate as much as I can to as many people as possible, because it has always been my philosophy that the more eyes and the more help that you get on a document or on any piece of work, the more likely it is you will get it right. So there is nothing—there was nothing odd about sending it to any of those parties.

Mr. VENTO. How many of these do you put out a year, this type of report?

Mr. RAUL. I am not aware of any other report like that at all.

Mr. VENTO. I thought maybe you would say it was unusual but it isn't, I guess. So you send these reports to the National Security Council. Can you give me a list of reports or documents that you have sent to the National Security Council in the last couple of years?

Mr. RAUL. I don't have any such list but—there is nothing odd about circulating—this is just an interagency review.

Mr. VENTO. I see. I would like to see such a list. I would like some examples, if I could have it.

Mr. RAUL. Well, some examples we could provide you, I suppose, although there is no list that exists of what is circulated.

Mr. VENTO. I would like a complete record of it.

Mr. RAUL. Of all documents over—

Mr. VENTO. Yes, sent to the National Security Council.

Mr. RAUL. Well, I will see what we can provide on that.

Committee Note: Mr. Raul attempted to mislead the Banking Committee during the hearing by stating that it was "normal practice" to communicate with the White House regarding decisions related to the CCC program. Mr. Raul was given the opportunity to provide documentation supporting his assertion, but he could produce no evidence of such communications. In fact, it is highly unusual that the White House would become involved in a CCC program decision. Iraq was the exception.

Mr. VENTO. Here I have a Miss Sandra Charles who works for the National Security Council. Is it your practice to receive a draft release for the release of such documents from the National Security Council? Are they serving as your public relations agent in this particular instance?

Mr. RAUL. Absolutely not. But, of course, the—not only did the subject of the report concern a matter that involved another country, but, in fact, involved a trip to another country. So with both the State Department and National Security Council, their interests are in international relations of the United States, and the report addressed a matter involving another country and a trip to

another country. So I believe there is really nothing exceptional about it at all, and——

Mr. VENTO. Let me just read the heading for you.

It says: "Dear Dick, with this press release, the National Security Council has no objection to your releasing this report, suggest you coordinate with the State."

What are they talking about, no objection to releasing the report. Are they approving it?

Mr. RAUL. Mr. Vento, a "no objection" and "clearance" are two of the most basic and relatively low level statements of bureaucratise.

Mr. VENTO. Of the National Security Council low level? Who is Sandra—who is Sandra Charles? What is her role there?

Mr. RAUL. I am not certain, Mr. Vento. I don't believe I am familiar with that individual. I may have met her at some point.

Mr. VENTO. Well, she is the Director of the Northeast and South Asian Affairs for the National Security Council. I don't know if you came to the White House. You sent her numerous memos, I guess. You said you send a lot of memos to them all the time.

Mr. RAUL. There would be nothing awkward about that. I am sure that the National Security Council, the State Department, Justice Department, receive every day a complete array of documents from lots of other agencies, just as we do. The Department of Agriculture receives——

Mr. VENTO. Thanks for giving me that answer.

Mr. Brosch, what was the role of the National Security Council in this document?

Mr. BROSCH. In what document?

Mr. VENTO. The administrative—the documents we have been talking about. You have been here at the table. The administrative review of the Iraq GSM-102 Program.

Mr. BROSCH. That is all I know. The——

Mr. VENTO. That is automatic. You know about it? You don't know anything about this? It seems to me your name is on one of these memos that I have here, on several of them. For instance, have you sent to—from Kevin J. Brosch to Sandra Charles, Director. You sent memos to her on this particular matter. You don't know anything about this, these memos you have sent? And to someone by the name of Nicholas Rostow, who is also a General Counsel for the National Security Council? You don't know—these are from you. I mean, you don't know—you sent him a long memo.

Mr. BROSCH. Mr. Vento, if you would ask me a specific question about a specific document, I would be glad to answer it, but I really don't know what you are talking about the way you are going on.

Mr. VENTO. I am not going on any way. I asked you what the role was of the National Security Council with regards to this document. That was my first question. You said, I don't know anything about it other than the title of it. You know nothing more about it than the title of it?

Mr. WYLIE. Mr. Chairman, why doesn't he identify the document?

Mr. VENTO. I did identify the document.

Mr. WYLIE. Show it to him, then.

Mr. VENTO. I read the title of the document. I think Mr. Brosch is familiar with the document.

Mr. RAUL. I believe there are different documents here.

Mr. VENTO. I am not asking you a question now.

Mr. RAUL. Would you just identify the document? Because you provided other documents. The document that was sent to the National Security Council, the State Department, the Justice Department, and our office of inspector general which concern the administrative review report and draft press release was something circulated by Under Secretary Crowder and myself to those individuals.

I received word back from the office of inspector general and from the Justice Department. As the document that you read referred to from Ms. Charles, evidently she responded to Mr. Crowder. Whether the State Department responded at all—

Mr. VENTO. Thank you. Thank you. The document I am referring to is an April 2 document, 1990, U.S. rice exports to Iraq, Agriculture Export Credit Guarantee Programs, GSM-102, memorandum to Sandra Charles from Kevin J. Brosch.

What was your purpose in sending this to the National Security Council, if you can recall, Mr. Brosch?

Mr. BROSC. You have got the documents mixed up. I never sent this document to the National Security Council, Mr. Vento. You have got your documents mixed up.

Mr. VENTO. Ones that you have before you are not, they are not documents that you sent to the National Security Council?

Mr. BROSC. The cover sheet is correct. That is my handwriting. That is my cover sheet. The attached document that you are referring to is not the document that I sent to either Ms. Charles or Nicholas Rostow.

Mr. VENTO. Did you have a role in the preparation of the administrative review document of Iraq?

Mr. BROSC. I wrote the administrative review.

Mr. VENTO. And what is the—were there any modifications in this document after the date of exchange between Mr. Raul and the National Security Council? Were there changes in this document?

Mr. BROSC. Not to my knowledge.

Mr. VENTO. Mr. Brosch, why is the inconsistency between the language and the lack of interpretation of the Arabic and Turkish documents in here and the conclusions? How do you account for the differences between the statements of fact with regards to—not being able to make determinations based on the documents and the conclusions in this particular document?

Mr. BROSC. I don't accept your premise, Mr. Vento, that there are inconsistencies. There are differences in language, but that is because the people that drafted the statement, the summary statement, summarized it the way they did.

Mr. VENTO. Did you participate in the Department's administrative review, which uncovered no evidence to suggest there had been diversion of commodities sold to Iraq? That is not your statement?

Mr. BROSC. That is a correct statement, yes, sir.

Mr. VENTO. You think it is correct. But you had not—in other words, in the series of questions to Mr. Crowder, we established that the documents were never interpreted.

Mr. BROSCHE. I don't think you established that, Mr. Vento. That is not quite accurate. I think what Mr. Crowder said is the documents that we had brought back have never been sent out for formal interpretation.

But let me tell you, Mr. Vento, that while we were in Iraq and we were in Baghdad at those meetings, we had an interpreter from the Embassy. We sat down with the documents that were brought out. There were thousands of documents. We went through those and we confirmed with the people that were there interpreting at the time that those indeed appeared to be what they were represented to be.

Mr. VENTO. Well, the thing is, we were looking obviously at Baghdad, we were also looking at the Gearbulk-led joint venture documents, and you said they offered to make these records available, but you didn't even receive the records. You don't have the records there.

Mr. BROSCHE. No, sir, they were in Amman, Jordan.

Mr. VENTO. You didn't have them so, obviously, you didn't close that particular loop. You didn't close that loop.

Mr. BROSCHE. We never looked at those records.

Mr. VENTO. That is right. So, obviously, you don't know the answer to the question. So there is an open-ended—

Mr. BROSCHE. That is right, sir, we do not know the answer.

Mr. WYLIE. Obviously, if they didn't see the documents, they don't know the answer.

Mr. BROSCHE. We know what we represented in the report, sir.

Mr. VENTO. In your office—you said the meeting took place in your office on October 13, 1989. A key sentence in that memo—which, apparently, you have not seen before; it was put in the *Congressional Record*—but it goes on to say that, likely, the CCC-guaranteed funds and/or commodities may have been diverted from Iraq to third parties in exchange for military hardware.

McElvain reported that although in the cases where adequate documentation exists, CCC commodities can be traced as far as Jordan and Turkey. In many cases, it is not clear that they ever reached Iraq. Where documents indicate shipments arrived in Baghdad, the timing appears improbable. Shipments arrive in Baghdad prior to arrival, arriving at interim posts.

McElvain and the USDA IG are concerned that commodities were bartered in Jordan and Turkey for military hardware. BDLA paperwork is so sloppy at this point that it may be months, or never, that we can reach a firm conclusion on the diversion issue.

Were you in that meeting?

Mr. BROSCHE. I was in that meeting, sir.

Mr. VENTO. And what is your comment with regard to the veracity of these notes?

Mr. BROSCHE. These notes are totally misleading. They do not represent the conversation that was had in that meeting on October 13, in my view.

Mr. VENTO. Mr. Snead, you have not commented on this particular aspect. It does suggest that you and the IG are concerned that commodities were bartered. Can you comment on this?

Mr. SNEAD. We do not have any evidence that items were diverted or anything like that, and I don't think we have any evidence about anything being bartered.

Hold on one second. We do not have any evidence that items were bartered.

Mr. VENTO. Were you in this meeting?

Mr. SNEAD. No, I was not.

Mr. VENTO. Mr. Brosch.

Mr. BROSCH. Excuse me. If I could, I will explain what happened in that meeting, and perhaps that would illuminate the issue, if you would like.

Mr. VENTO. I don't know if it will illuminate it, but it will help to have your explanation.

Mr. BROSCH. I would be glad to, sir. This meeting occurred because Ms. Veneman had gotten a call from the State Department, right after I had returned on my first trip to Atlanta, and with the request that they be able to send over somebody to get briefed on what was going on down in Atlanta.

As I testified, I had been sent there by Dr. Crowder to try to figure out what was happening in that investigation, and we had arrived back on October 12. That was the following morning that a Mr. Lemay came over to my office and he met with me and Mr. McElvain and Mr. Bonner of my office and my Associate General Counsel, Mr. Conway. And I think you can see the participants are so listed in this memorandum.

I do recall that meeting very well. One of the reasons I recall that, was that Mr. Lemay, who arrived, had never heard of the GSM Program before he arrived. He was not familiar with the BNL investigation. He was, he represented himself as a new kid on the beat. He had not been to Atlanta.

We gave him the information that we were giving everyone else at the time: That there was an investigation going on; that there were a series of allegations going on; that the evidence had not been adduced at that point in time. We had a long discussion of this, and then Mr. Lemay went back and, apparently, wrote this memorandum, which I had not seen. He never called me to ask me to review his memorandum for its accuracy or anything. I had not seen it until it appeared in the record.

Today, we have a sort of reunion of sorts, Mr. Vento, of those five individuals in the meeting. Four are in this room right now; Mr. McElvain, myself, Mr. Conway, and Mr. Bonner. And I will tell you my recollection is that this is totally inaccurate of the—

Mr. VENTO. It does mention USDA's Brosch noted the U.S. attorney said there was some indication that diverted funds and possibly direct bank-lent funds were used to procure nuclear-related equipment. Noted in particular were a nuclear fuel compounder and nose cone. Here the evidence of CCC diversion was not fully developed. The case remains open. DOD is investigating this aspect of the problem.

We have asked to have a lot of witnesses and material be sent by the President, and it hasn't happened, so we are dealing with what we have. He seems to have your name spelled correctly.

Mr. BROSCH. That he got, Mr. Vento. Beyond that, I am not too sure if he got anything right.

But I will say, Mr. Vento, that I have had this conversation actually before with Mr. Kane, of your committee staff, who called me and told me about this document several months ago. And I told Mr. Kane at the time that if the committee would just look at the record, you will see that there are documents contemporaneous in the record that were describing what we were explaining both to our superiors in the Department and to other people in the inter-agency process at the time, and it certainly is not what you find in Mr. Lemay's memo.

I would point your attention, Mr. Vento, to the documents that we submitted, which are numbered 319 to 325. You will see it is a memorandum that I wrote, it is a draft, on October 20, which is about a week after this meeting, to my superiors, Ms. Bollington, the assistant general counsel, and to Mr. Conway, describing what was the situation in Atlanta at the time. And you will see it is a very, very different account than what you have in the October 13 memorandum.

All I can say is I can't account for why Mr. Lemay wrote this. He wrote it. You will have to ask him, but it is certainly not accurate, in my judgment.

Mr. VENTO. Well, Mr. McElvain already spoke to this issue, but I have read this statement.

This is attributed to you in this memo, Mr. McElvain. Do you have any comment on this? You heard the statement where it said Baghdad—the real point is you haven't demonstrated or evidenced that the shipments did arrive in Baghdad or did arrive in Iraq. This is the other issue that you are trying to demonstrate.

But it says where documents indicate shipments arrived in Baghdad, the timing appears improbable. Shipments arrived in Baghdad prior to arriving at interim posts.

Mr. McELVAIN. Mr. Congressman, I just don't recall having that discussion with Mr. Lemay.

Mr. VENTO. But McElvain and the U.S. inspector general are concerned that commodities were bartered in Jordan. And, of course, this is the inspector general.

Mr. Snead, you are the inspector general at this time, are you not?

Mr. SNEAD. That is correct.

Mr. VENTO. That is why I wanted you to add your voice here to this.

Mr. SNEAD. I was not in that meeting and I don't know what went on and I am not familiar with the memorandum. Really, this is my first hearing of some of those details about it, and I didn't contribute to any of that.

Mr. VENTO. I have just come here. I am not an expert. I have worked on a million things and I am just asking questions; if you knew anything about these documents. I understand there is a difference, but I didn't create that. I am trying to resolve it, and I want to, we want to get to the bottom of the issues.

Mr. Chairman, you have been very generous with the time, and my apologies if I have disabused the witnesses; I didn't intend to, and I appreciate my colleagues' patience.

The CHAIRMAN. Mr. Wylie.

Mr. WYLIE. Mr. Chairman, I am sorry I had to leave for a while, but I want to commend this panel and commend the witnesses for what I have heard here. It has been a very grueling day, I would suggest to you, given the direction that some of the questioning has taken.

But I would conclude by saying that at least while I was here, I learned that there might have been mistakes made, mistakes in policy, but the policy mistakes, if there were policy mistakes, were certainly bipartisan, and many Members of Congress also thought Saddam Hussein could be helpful to us, given the situation we found ourselves in with Iran several years ago.

While I was here, I heard no evidence of any wrongdoing or no evidence of illegality. All of our witnesses have testified to that. Finally, Mr. Chairman, I believe that these hearings have served a valid purpose from that standpoint, but, from what I have seen, I have not seen any evidence of wrongdoing that would suggest the appointment of a special prosecutor.

I do want to compliment the witnesses for their forthcomingness and their willingness to come here and help us resolve this situation.

Thank you, sir.

The CHAIRMAN. Certainly. Let me clarify that.

You know, there is more than one committee. In fact, the Agriculture Subcommittee has been on this for some period of time and they are joining the request, as well as members of the Judiciary Committee. So it isn't anything that is necessarily unilaterally generated here.

There was just one thing I was going to follow through here, and also the question I raised with respect to that memo note. Even though you find no evidence that there was a diversion of the deliveries, did you ever have proof that they were delivered as committed to Iraq?

Mr. SNEAD. No, we did not, Mr. Chairman.

The CHAIRMAN. All right.

Well, these questions, at least from my standpoint, are not being asked in order—I have pointed out from time immemorial and at the outset of this hearing today, I said we were not invoking rule 10 or 11 and a full investigatory panoply. It has been very difficult, and we had a hard time explaining to a lot of citizens and colleagues why we were not doing something about Charles Keating in the case of the Lincoln S&L failure.

We did invite him to testify and he did appear. He came. We summoned him, he took the fifth amendment, and it was his right, and we stayed within the rules. We have had very good, defined, and time-tested rules since the 1950's governing the rights of witnesses that appear before us. But the main thing is that we have to, time and time again, explain that we have limited jurisdictions; that is, we are not a judiciary body, we are not a prosecutorial body, we are just simply a committee of the Congress that under one of its last remaining three fundamental constitutional powers, the right to know, is exercising that right.

But in this case, there was not and could not be construed as any preconceived notion that anybody was guilty of anything because we were not placing the witnesses under oath. We simply are

grateful that you answered our invitation to appear. We are extremely grateful. It does help the committee immensely and we are going to proceed and have other hearings with other witnesses subsequent to this.

Yes, Mr. Brosch.

Mr. BROSC. Mr. Chairman, out of fairness to Mr. Vento, in one of the questions he asked, I think I didn't quite finish responding to an inquiry he had about the NSC fax document, and I would like, out of fairness, to tell you what that is about too, sir.

When we were about to go to Iraq, we were coordinating the details of arranging for that visit and making a request to the State Department, and I was coordinating that with a lawyer at the State Department. I sent him a copy of that.

In a conversation that we had before, I sent him the copy of our request by fax. He asked me to fax a copy of that to Mr. Rostow and to Ms. Charles, and that is why you see those particular faxes in this.

And, as a matter of fact, I have in my documents, which I have a copy of the ones I produced, I can show you where that document is and which documents are properly attached.

Mr. VENTO. I think, Mr. Chairman, for the record, we might want to get together with staff and have them go through the documents so we get—apparently, the stapled sheets we had were the wrong cover sheets for the wrong documents. I just assumed they were correct.

Mr. BROSC. I think you had made a fair question, Mr. Vento, and I wanted to give you a fair answer.

Mr. VENTO. Mr. Chairman, I had another question, too, on this National Security Council Directive No. 26. Were any of you informed of this particular directive? Were you involved in the application of it?

Mr. Snead, did you discover the existence of this document before; were you aware of it?

Mr. SNEAD. No.

Mr. VENTO. In terms of your report, it is reported, in one of the documents the chairman dealt with, the National Advisory Council deputies meeting of November 8, 1989. Obviously, Mr. Crowder was and others were aware of it, but it didn't come up in any other types of reviews here.

You were not made aware—Mr. Raul, were you aware of it?

Mr. RAUL. I was aware there was such a directive. I think it might have been mentioned at that November 8 meeting. I have not ever seen the document, but its existence is not a surprise to me. I think it did come up at the NAC meeting. If not there, somewhere else. But, again, I have not seen it.

Mr. VENTO. Well, the obvious connection with the National Security Council and the fact they have directives and you are sending documentation back and forth with regards to Iraq, I think, is something that is of interest, obviously, to the committee, in the sense of the judgments and/or the influence in the judgments that were made.

There is indication, Mr. Chairman, in terms of responding to Senator Leahy's questions in the Senate, I am sure my chairman will recall, and others that have studied the documents, that Mr.

Crowder said that he was not under any unusual pressure in terms of making these decisions.

Well, I think that as we looked at further documentation that we have from this, there was intense debate within the administration. In fact, I can point out in the record here there was intense debate within the administration. One of the documents I have indicates there was intense debate here; that this was a big issue, a big policy issue.

This was not just a regular issue in this. And trying to suggest or minimize it by saying we sent everything to the Security Council is not helpful to me.

Mr. RAUL. No, Mr. Vento, it was a big issue. There was a debate. There were, as others in the first panel discussed with you this morning, there was considerable discussion over the benefits and risks of going forward. It was a matter that was, as I said in my testimony, not taken lightly at all, because the risks were perceived; the benefits were also perceived. So there was considerable discussion over this matter.

I think that I certainly have not intended to suggest that this was routine, nor do I believe anyone else testifying today has suggested that this was entirely routine. There were many considerations that were examined and discussed.

Mr. VENTO. Were you aware of the communication between Secretary Baker and Yeutter at the Department in terms of this particular issue, Mr. Raul?

Mr. RAUL. I was not at the time, no. [Clarified by Mr. Raul's letter of May 21.]

Mr. VENTO. And, of course, that has come up now. I think Mr. Crowder, in responding to Senator Leahy's questions, said there were no political considerations. Everyone is entitled to their own political considerations and interpretations and questions, but, clearly, this went into, I think, quite high levels in terms of what decisions were made here. Obviously, it would be helpful to see the national security directive and the other materials.

I appreciate the response of the witnesses, Mr. Chairman. Thank you.

The CHAIRMAN. Thank you very much. And, gentlemen, and lady, thank you very much. The hour is late. You have been most patient. You have gone way beyond the call of duty. We are grateful.

Mr. BROSCHE. Thank you, Mr. Chairman.

The CHAIRMAN. I wanted to recognize the staff, Mr. Dennis Kane and his very able associate, Ms. Debra Carr, who is also counsel. Also, they are both professional staffers, and want to acknowledge their great work.

So thank you again very much, and the committee stands adjourned until further call of the Chair.

Mr. BROSCHE. Thank you, Mr. Chairman.

Mr. RAUL. Thank you, Mr. Chairman.

[Whereupon, at 5:40 p.m., the hearing was adjourned, subject to the call of the Chair.]

APPENDIX

May 21, 1992

PLEASE NOTE!

Additional appendix material can be found in Part 2
of this hearing.

**Opening Statement of Henry B. Gonzales, Chairman
Committee on Banking, Finance and Urban Affairs**

**Hearing on the National Advisory Council (NAC) Decision
to Approve the \$1 billion FY 1990 Commodity Credit Corporation
(CCC) Program for Iraq and the Department of Agriculture's (USDA's)
Administrative Review of the BNL Scandal**

May 21, 1992

We meet today for the fourth time to hear testimony related to the Banking Committee's investigation of the Atlanta branch of the Banca Nazionale del Lavoro (BNL). The Committee's investigation revolves around the over \$4 billion in loans the Atlanta branch of BNL provided to Iraq beginning in 1985 through August 1989. The scope of the Committee's investigation includes Iraq's and BNL's participation in Export-Import Bank and Commodity Credit Corporation (CCC) programs as well as the BNL role in funding Iraq's military technology procurement network.

So far the Committee's investigation has uncovered that the system of regulating and supervising branches and agencies of foreign banks was wholly inadequate. Legislation that I introduced closed loopholes in the banking laws and also restructured the system of supervision governing foreign banks.

The Committee's investigation has also revealed painful, scandalous details about the flawed U.S. policy towards Iraq including the Administration's misleading statements to the Congress.

In the coming months, the BNL investigation will provide new details on the U.S. role in arming Iraq including information about BNL's role in funding the Iraqi military technology procurement

network, and the role many U.S. companies played in arming Saddam Hussein. In addition the investigation will explore the Reagan and Bush Administration's role in facilitating the arming of Iraq.

As a result of this investigative effort, I recently introduced legislation that will force the U.S. to vote "NO" on IMF and multilateral development bank loans to countries that do not adhere to the nonproliferation regimes that thwart the spread of weapons of mass destruction. It also tightens regulations governing the activities of foreign banks operating in the U.S.

As today's hearing will show, the Bush Administration's policy toward Iraq was seriously flawed. The Administration hoped to moderate Iraq's behavior by providing Saddam Hussein with billions of dollars in financial assistance and U.S. technology. I find it hard to understand how the behavior of the new Adolf Hitler, as President Bush has since referred to Saddam Hussein, could have been modified or how close relations with Saddam Hussein would ultimately bring stability to the Middle East. But that was the policy that was pursued - it is history.

The important thing to focus on at today's hearing is the government controls that were trampled on in order to further the Administration's policy toward Saddam Hussein.

Today's hearing will show that the White House and State Department disregarded irrefutable evidence of massive Iraqi atrocities at the same time it was pressuring the NAC to approve the \$1 billion CCC program for Iraq. These atrocities include the following:

- Just a year before the NAC decision to approve the \$1 billion CCC program, Iraq used poison gas to eradicate thousands of its own Kurdish citizens and horrified the whole world;
- Iraq was not considered creditworthy. Iraq repaid its debts selectively based solely on its ability to obtain larger and larger allocations of credit;
- Iraq provided financial support and a safe harbor to terrorist groups;
- Over 50% of Iraq's GNP was dedicated to rebuilding Saddam's military machine;
- Iraq had one of the world's most repressive regimes. Iraq engaged in monumental human rights violations including torturing her children;
- the BNL scandal implicated the highest levels of the Iraq government including Saddam Hussein's son-in-law Hussein Kamil, Amer Al Sadi, the head of Iraq's ballistic missile programs, and Safa Al Habobi, the genius behind Iraq's secret military procurement network.
- Iraq was engaged in a program to smuggle U.S. technology to build nuclear, chemical, and biological weapons and ballistic missiles.

It is in the context of these facts that the decision was made to put the taxpayer at risk for the \$1 billion CCC program for Iraq. It was in this context that the Administration wanted to mollify Saddam Hussein.

It is important to bring out the details of the National

Advisory Council process in the context of the Iraqi policy because the same mistakes are now being made with countries such as China, Iran, Syria, Jordan and the new Confederation of Independent States (CIS). Syria and Iran support terrorism and yet export licensing restrictions have been relaxed. China is a chronic human rights abuser and possesses nuclear missiles that can hit the U.S. yet it is about to obtain most favored nation status. The new CIS states are not creditworthy, yet they receive ample CCC and Eximbank credits. Jordan is a sieve as far as the U.N. sanctions are concerned, yet the Administration is pushing for tens of millions of dollars in aid to the Iraqi sympathizers in Amman.

The Committee is disappointed that Mr. Stephen Danzansky of the White House, and Mr. Richard Haass of the National Security Council (NSC) have failed to appear at today's hearing. These individuals are critically important to understanding the White House's and NSC's role in the decision to approve the CCC program for Iraq and the USDA's administrative review of the Iraqi program.

The Committee has a legitimate right to receive testimony from the White House and NSC as well as to obtain documents from them. I have asked the President to provide BNL-related documents and to make various NSC and White House staff available for interviews, but we have received no reply. The Committee will not be steamrolled by the White House and if necessary, I will seek subpoena authority in order to obtain the information and persons that I am seeking. Meanwhile the invitation is open.

I look forward to the testimony of our witnesses.

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WASHINGTON, DC 20515

May 20, 1992

WITNESS LIST

HEARING ON

THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL POLICY (NAC) AND THE DEPARTMENT OF AGRICULTURE'S (USDA) ADMINISTRATIVE REVIEW OF THE BANCA NAZIONALE DEL LAVORO (BNL) SCANDAL

Thursday, May 21, 1992

9:30 A.M. IN ROOM 2128 RAYBURN HOUSE OFFICE BUILDING

Panel I - Examination of the inter-agency approval of the \$1 billion FY 1990 Commodity Credit Corporation program for Iraq

Mr. John E. Robeson, Deputy Secretary, U.S. Department of the Treasury

Honorable Lawrence S. Eagleburger, Deputy Secretary, U.S. Department of State

Mr. Richard M. Haass, Senior Director for Near East and South Asian Affairs, National Security Council

Mr. Stephen I. Dansansky, Chief of Staff/Counselor to the Secretary, Department of Education (former Director, White House Office of Cabinet Affairs)

Mr. Edward W. Kelley, Jr., Board of Governors, Federal Reserve Board

Mr. Richard T. Crowder, Under Secretary, International Affairs and Commodity Programs, U.S. Department of Agriculture

Panel II - Examination of the USDA's administrative review of the BNL scandal

Honorable Ann M. Veneman, Deputy Secretary, U.S. Department of Agriculture

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100-220-1117

Mr. Larry T. McElvain, Director, Commodity Credit Corporation (CCC) Operations Division, U.S. Department of Agriculture

Mr. Alan C. Raul, General Counsel, U.S. Department of Agriculture

Mr. Kevin Brosch, Deputy Assistant General Counsel, Office of General Counsel, U.S. Department of Agriculture

Mr. Leon Sneed, Inspector General, U.S. Department of Agriculture, to be accompanied by Mr. Craig L. Beauchamp, Assistant Inspector General for Investigations, U.S. Department of Agriculture

HENRY S. GONZALEZ, TEXAS, CHAIRMAN

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April 16, 1992

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EDWARD BARNES, VERMONT
 PH 202-225-4947

Honorable John E. Robson
 Deputy Secretary
 U.S. Department of Treasury
 Washington, D.C. 20220

Dear Mr. Robson:

The Committee on Banking, Finance and Urban Affairs will hold a hearing on the National Advisory Council on International Monetary and Financial Policy (NAC) and its role in approving the \$1 billion FY 1990 U.S. Department of Agriculture (USDA) Commodity Credit Corporation (CCC) program for Iraq.

As the Chairman of the Deputies Committee of the NAC, the Committee respectfully requests that you testify at this hearing on May 21, 1992, at 9:30 a.m. in Room 2128, Rayburn House Office Building.

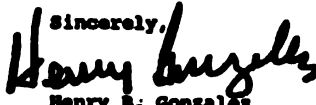
The Committee would like you to address the following questions in your written testimony:

1. Please explain the NAC process and the Treasury Department's role in the process.
2. How did foreign policy considerations affect the NAC's decision to grant Iraq CCC credits?
3. How did creditworthiness concerns affect the NAC's decision to approve the FY 1988, FY 1989 and FY 1990 CCC programs?
4. How did Iraq's human rights record affect the NAC's decision to approve the CCC program for Iraq?
5. What influence did the Banca Nazionale del Lavoro (BNL) scandal have on the NAC's consideration of the \$1 billion FY 1990 CCC program for Iraq?
6. How many times have the minutes of a NAC meeting been classified? Please list those occasions.

Please feel free to submit any further comments that you may have on the above topics. Banking Committee rules require your written testimony be made available to Members of the Committee twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m., May 20, 1992.

Thank you for your time and consideration of this request.
The Committee looks forward to your testimony.

With best wishes.

Sincerely,

Henry B. Gonzalez
Chairman

HBG:dk

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800 855-4547

Dear Ambassador Kinnitt:

The Committee respectfully requests that you testify at this hearing on May 21, 1992, at 9:30 a.m. in Room 2128, Rayburn House Office Building.

The Committee would like you to address the following questions in your written testimony:

1. Please explain the State Department's rationale for supporting a \$1 billion FY 1990 CCC program for Iraq.
2. What role did National Security Directive 26 (NSD-26) play in the State Department's decision to support the FY 1990 CCC program for Iraq?
3. How did creditworthiness concerns affect the State Department's decision to support the FY 1990 CCC program for Iraq?
4. How did Iraq's human rights record affect the State Department's decision to support the FY 1990 CCC program for Iraq?
5. What influence did the Banca Nazionale del Lavoro (BNL) scandal have on the State Department's position related to the FY 1990 CCC program for Iraq?

Please feel free to add any additional comments that you may have on the above topics.

Banking Committee rules require your written testimony to be made available to Members of the Committee twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m., May 20, 1992.

Thank you for your time and consideration of this request. The Committee looks forward to your testimony.

With best wishes.

Sincerely

A handwritten signature in dark ink, appearing to read "Henry B. Gonzalez", written in a cursive style.

Henry B. Gonzalez
Chairman

HBG:dk

April 16, 1992

Dear Mr. Kelley:

The Committee on Banking, Finance and Urban Affairs will hold a hearing on the National Advisory Council on International Monetary and Financial Policy (NAC) and its role in approving the \$1 billion FY 1990 U.S. Department of Agriculture (USDA) Commodity Credit Corporation (CCC) program for Iraq.

As the Federal Reserve representative at the Deputies Committee level of the MAC, the Committee respectfully requests that you testify at this hearing on May 21, 1992, at 9:30 a.m. in Room 2128, Rayburn House Office Building.

The Committee would like you to address the following questions in your written testimony:

1. Please explain the Federal Reserve's role in the MAC process.
2. How did foreign policy considerations affect the Federal Reserve's position related to the consideration of the FY 1990 CCC program for Iraq?
3. How did Iraq's human rights record affect the Federal Reserve's position related to the consideration of the FY 1990 CCC program for Iraq?
4. How did creditworthiness concerns affect the Federal Reserve's position related to the consideration of the FY 1990 CCC program for Iraq?
5. What influence did the Banca Nazionale del Lavoro (BNL) scandal have on the Federal Reserve's position related to the FY 1990 CCC program for Iraq?

Please feel free to submit any further comments that you may have on the above topics.

Banking Committee rules require your written testimony be made available to Members of the Committee twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m., May 20, 1992.

Thank you for your time and consideration of this request. The Committee looks forward to your testimony.

With best wishes.

Sincerely,

Henry B. Gonzalez
Chairman

NBS:dk



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April 21, 1992

Committee on Banking, Finance
& Urban Affairs

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and
Urban Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of April 16 inviting me to testify on the National Advisory Council on International Monetary and Financial Policy and its role in approving the 1990 U.S. Department of Agriculture CCC program for Iraq.

I will be pleased to appear before the Committee on May 21.

Sincerely,

EW Kelley Jr

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 (202) 225-4247

Mr. Richard T. Crowder
 Under Secretary
 International Affairs and Commodity Programs
 U.S. Department of Agriculture
 14th Street and Independence Avenue, N.W.
 Washington, D.C. 20250

Dear Mr. Crowder:

The Committee on Banking, Finance and Urban Affairs will hold a hearing on the National Advisory Council on International Monetary and Financial Policy (NAC) and its role in approving the \$1 billion FY 1990 U.S. Department of Agriculture (USDA) Commodity Credit Corporation (CCC) program for Iraq.

The Committee respectfully requests that you testify at this hearing on May 21, 1992, at 9:30 a.m. in Room 2128, Rayburn House Office Building. The Committee would like you to address the following questions in your written testimony:

1. Please explain the USDA's role in the NAC process.
2. How did foreign policy considerations affect the USDA's position related to the consideration of the FY 1990 CCC program for Iraq?
3. How did creditworthiness concerns affect the USDA's position related to the consideration of the FY 1990 CCC program for Iraq?
4. How did Iraq's human rights record affect the USDA's position related to the consideration of the FY 1990 CCC program for Iraq?
5. What influence did the Banca Nazionale del Lavoro (BNL) scandal have on the USDA's position related to the consideration of the \$1 billion FY 1990 CCC program for Iraq?
6. Please explain the National Security Council's (NSC's) role in the USDA's Administrative Review of the BNL scandal.
7. Please explain the White House's and NSC's role in the USDA's decision making process related to the FY 1990 CCC program for Iraq.

Please feel free to submit any further comments that you may have on the above topics. Banking Committee rules require your written testimony be made available to Members of the Committee twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m. May 20, 1992.

Thank you for your time and consideration of this request. The Committee looks forward to your testimony.

With best wishes.

Sincerely,

 Henry E. Gonzalez
 Chairman

HBC:dk

ONE HUNDRED SECOND CONGRESS
2128 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6060

May 1, 1992

DONALD R. UFFLE, OHIO
 JIM LEACH, IOWA
 ERL MCDONALD, FLORIDA
 KAREN KENDRICK, NEW JERSEY
 DEWE DUNFORD, MISSISSIPPI
 THOMAS J. HARRIS, MISSOURI
 TERRY SMITH, WISCONSIN
 ALFRED A. MCANULTIN, CALIFORNIA
 EDWARD H. BAKER, LOUISIANA
 JOEL STEARNS, FLORIDA
 PAUL E. GRADNEY, OHIO
 GLENN L. HARRIS, MISSOURI
 JOHN LAMBERT BARNES, JR., MISSISSIPPI
 TOM CAMPBELL, CALIFORNIA
 BILL HARRISON, MISSISSIPPI
 FRANK REED, CALIFORNIA
 JIM HARRIS, OHIO
 EDWARD E. ARNETT, TEXAS
 THOMAS WILSON, WYOMING
 SAM JOHNSON, TEXAS
 EDWARD SANDERS, VERMONT

Dear Secretary Nadigan:

The Committee on Banking, Finance and Urban Affairs will hold a hearing on several aspects of the Department of Agriculture's Iraq program. Panel one of the hearing will focus on the National Advisory Council on International Monetary and Financial Policy (NAC) and its role in approving the \$1 billion FY 1990 U.S. Department of Agriculture (USDA) Commodity Credit Corporation (CCC) program for Iraq. Panel two will focus on the USDA's administrative review of the BNL scandal.

The Committee respectfully requests that the following USDA persons testify at this hearing on May 21, 1992, at 9:30 a.m. in Room 2128, Rayburn House Office Building.

- Honorable Ann M. Veneman, Deputy Secretary, USDA (Panel 2);
- Mr. F. Paul Dickerson, Associate Administrator General Sales Manager, Foreign Agricultural Service (Panel 2)
- Mr. Larry T. McElvain, Director, Commodity Credit Corporation (CCC) Operations Division (Panel 2);
- Mr. Alan C. Raul, General Counsel, USDA (Panel 1 & 2)
- Mr. Kevin Brosch, Deputy Assistant General Counsel, Office of General Counsel (Panel 2)
- Ms. Kelly M. Ship, Director Office of Public Affairs and Press Secretary (Panel 2)

Each witness should submit in writing a brief description of her/his responsibilities and the role they played in the decision to approve the FY 1990 CCC program for Iraq and/or their role in the USDA administrative review of the ENL scandal.

Banking Committee rules require your written testimony be made available to Members of the Committee twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m. May 20, 1992.

Thank you for your time and consideration of this request. The Committee looks forward to your testimony.

With best wishes.

Sincerely,


Henry B. Gonzalez
Chairman

HBC:dk

CHALLENGER P. WYLLIE, OHIO
JIM LEACH, OHIO
BIL MCDONALD, FLORIDA
MAREK MOUKHA, NEW JERSEY
BOBIE SAMPSON, MISSISSIPPI
THOMAS RIGGS, PENNSYLVANIA
TROY ROTH, WISCONSIN
ALFRED A. MACDONALD, CALIFORNIA
RICHARD H. BAKER, LOUISIANA
CLIFF STEADMAN, FLORIDA
PAUL J. COLLIER, MISSISSIPPI
BIL FAJON, NEW YORK
JOHN JAMES DUNCAN, JR., TENNESSEE
TONI CAMPBELL, CALIFORNIA
MRS. WAGGONER, MISSOURI
PAUL R. RYAN, CALIFORNIA
JIM RUSSELL, IOWA
RICHARD E. ARNEY, TEXAS
CRIS THOMAS, WYOMING
SAM JOHNSON, TEXAS

OPPOSED NATIONAL VERMONT

(800) 255-4307

Mr. Leon Snead
Inspector General
U.S. Department of Agriculture
14th and Independence Ave., N.W.
Washington, D.C. 20250

Sincerely,

 Henry B. Gonzalez
 Chairman

HBG : dk

White House Refuses to Testify

**2120 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6050**

CHARLES P. WYLLIE, CHGO
 JIM LEMAY, CHGO
 GIL MONTGOMERY, FLORNS
 HAROLD KENNEDY, NEW JERSEY
 JAMES W. KENNEDY, MINNESOTA
 THOMAS EDWIN, PENNSYLVANIA
 TONY BELL, WISCONSIN
 ALFRED A. BRADSHAW, CALIFORNIA
 ROBERT A. BAKER, LOUISIANA
 G. J. BAKER, ALABAMA
 PAUL C. CLARK, CHGO
 GIL PARKER, NEW YORK
 JOHN LEMAY, BUREAU, IN. (THINKING)
 JIM CAMPBELL, CALIFORNIA
 BOB HANCOCK, MINNESOTA
 RICHARD BAKER, CALIFORNIA
 JIM KESTER, CHGO
 EDWARD C. ARNETT, TEXAS
 GENE WENDLAND, ILLINOIS
 BOB JOHNSON, TEXAS
 CARROLL SANDERS, VERMONT

(202) 525-4507

1. Please explain why the White House was involved in the NAC's consideration of the \$1 billion FY 1990 CCC program for Iraq.
2. Pursuant to what authority did the White House become involved in the decision to grant Iraq \$1 billion in CCC credits for FY 1990?
3. Please explain the White House's role in the USDA's internal consideration of the FY 1990 CCC program for Iraq.
4. How did foreign policy concerns affect the White House's position concerning the FY 1990 CCC program for Iraq?
5. Please explain how Iraq's creditworthiness and human rights record affected the White House's position concerning the FY 1990 CCC program for Iraq?
6. What influence did the ENL scandal have on the White House's position concerning the FY 1990 \$1 billion CCC program for Iraq?

Please feel free to submit any further comments that you may have on the above topics. Banking Committee rules require that your written testimony be made available to Members of the Committee twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m., May 20, 1992.

Thank you for your time and consideration of this request. The Committee looks forward to your testimony.

With best wishes.

Sincerely,

Henry S. Gonzalez
Chairman

HSG:dk

STEPHEN I. DANZANSKY3609 EDMUNDS STREET, N. W.
WASHINGTON, D. C. 20007

April 30, 1992

RECEIVED**MAY 4 1992**

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and
Urban Affairs
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515-8050

Committee on Banking, Finance
& Urban Affairs

Dear Mr. Chairman:

This will acknowledge receipt of your letter dated April 16, 1992, requesting that I testify before the Committee on May 21, 1992, concerning the National Advisory Council on International Monetary and Financial Policy and its role in approving a FY 1990 USDA Commodity Credit Corporation program for Iraq.

Despite my somewhat limited knowledge of and involvement in this matter, I am obliged to consult with White House officials concerning my appearance before your committee, because the events to which your letter referred occurred while I was serving as a member of the White House staff as a commissioned officer and Deputy Assistant to the President.

Immediately upon receipt thereof, I forwarded a copy of your letter-request to the White House, and I expect that the appropriate office will soon be in touch with you or your staff.

Respectfully,


STEPHEN I. DANZANSKY

Office: Department of Education
(202) 401-1110

HENRY B. GONZALES, TEXAS, CHAIRMAN
 FRANK J. ANNUNCIO, ILLINOIS
 STEPHEN L. REAL, NORTH CAROLINA
 CARROLL HUBBARD, JR., KENTUCKY
 JOHN J. LAFALCE, NEW YORK
 BARRY ROSE BAKER, OHIO
 BRUCE F. VENTO, MINNESOTA
 BOBIE BARNARD, JR., GEORGIA
 ALLEN E. SCHWARTZ, NEW YORK
 RICHARD E. BURKE, MASSACHUSETTS
 H. BROWDER, ALABAMA
 THOMAS R. CAPPEL, VIRGINIA
 STEPHAN EDWARDS TORRES, CALIFORNIA
 RONALD E. KLECKA, WISCONSIN
 PAUL E. CARROLL, PENNSYLVANIA
 ELEANOR J. PATTERSON, SOUTH CAROLINA
 JOSEPH P. KENNEDY, MASSACHUSETTS
 FLOYD H. PLATT, NEW YORK
 THOMAS R. BAKER, MARYLAND
 PETER HENRICH, INDIANA
 RICHARD E. REAL, MASSACHUSETTS
 CHARLES LUND, OHIO
 MAURINE HARTLEY, CALIFORNIA
 BILL BRITTON, UTAH
 JIM BACCHUS, FLORIDA
 JAMES MICHAEL, JR., WISCONSIN
 JOHN COLE, AL. ALABAMA
 TED WEISS, NEW YORK
 JIM BLAFFORD, KANSAS
 GARY L. ACKERMAN, NEW YORK

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ONE HUNDRED SECOND CONGRESS
 2129 RAYBURN HOUSE OFFICE BUILDING
 WASHINGTON, DC 20515-8080

May 1, 1992

CHARLES F. WYLLIE, OHIO
 JIM LEACH, IOWA
 BILL MCDERMOTT, FLORIDA
 ROBERT H. JOHNSON, NEW JERSEY
 BOB ROSENTHAL, NEBRASKA
 THOMAS ROBEY, PENNSYLVANIA
 TERRY ROTH, WISCONSIN
 ALFRED A. INCANALE, CALIFORNIA
 ROBERT H. BAKER, LOUISIANA
 CLIFF STANLEY, FLORIDA
 PAUL E. BELLARD, OHIO
 BILL PASAREL, NEW YORK
 JOHN LAMARCA BURGESS, JR., PENNSYLVANIA
 TIM CARROLL, CALIFORNIA
 BOB HANCOCK, MISSOURI
 FRANK RUSSELL, CALIFORNIA
 JIM HAMIL, IOWA
 EDWARD L. ARNETT, TEXAS
 GREG THOMAS, OYRONES
 SAM JOHNSON, TEXAS
 GEORGE BARKER, VERMONT
 (202) 225-4247

Mr. Richard N. Haass
 Senior Director for Near East
 and South Asian Affairs
 National Security Council
 Old Executive Office Building
 17th Street & Pennsylvania Ave., N.W.
 Washington, D.C. 20520

Dear Mr. Haass:

The Committee on Banking, Finance and Urban Affairs will hold a hearing on the National Advisory Council on International Monetary and Financial Policy (NAC) and its role in approving the FY 1990 \$1 billion U.S. Department of Agriculture (USDA) Commodity Credit Corporation (CCC) program for Iraq.

The Committee has documents showing that the Near East and South Asian Affairs section of the National Security Council (NSC) was involved in the decision to approve the FY 1990 \$1 billion CCC program for Iraq as well as the Department of Agriculture's administrative review of the BNL scandal. The Committee respectfully requests that you testify regarding these topics on May 21, 1992, at 9:30 a.m. in Room 2128, Rayburn House Office Building.

The Committee would like you to address the following questions in your written testimony:

1. Under what authority did the NSC staff become involved in the decision to grant CCC credits to Iraq?
2. Under what authority did the NSC staff become involved in the decision to grant CCC credits to Iraq?
3. Please explain the NSC's rationale for supporting a \$1 billion FY 1990 CCC program for Iraq.
4. What role did National Security Directive 26 (NSD-26) play in the NSC's decision to support the FY 1990 CCC program for Iraq?
5. How did creditworthiness concerns affect the NSC's decision to support the FY 1990 CCC program for Iraq?

6. How did Iraq's human rights record affect the NSC's decision to support the FY 1990 CCC program for Iraq?
7. What influence did the Banca Nazionale del Lavoro (BNL) scandal have on the NSC's position related to the FY 1990 CCC program for Iraq?
8. Please explain the NSC's involvement in the USDA administrative review of the BNL scandal.

Please feel free to add any additional comments that you may have on the above topics.

Banking Committee rules require your written testimony to be made available to Members of the Committee twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m., May 20, 1992.

Thank you for your time and consideration of this request. The Committee looks forward to your testimony.

With best wishes.

Sincerely,

 Henry B. Gonzalez
 Chairman

HBG:dk

Den...

THE WHITE HOUSE
WASHINGTON

May 4, 1992

RECEIVED

MAY 6 1992

Dear Mr. Chairman:

Banking, Finance & Urban Affairs Committee

I am writing in connection with your recent letter to Stephen Danzansky, Chief of Staff to the Secretary of Education, requesting that he testify before your committee on May 21, 1992.

In your letter, you request that Mr. Danzansky testify about matters occurring during his tenure as Deputy Assistant to the President and Director of the Office of Cabinet Affairs. Due to longstanding tradition, and in accordance with the doctrine of separation of powers, members of the President's personal staff, who participate in the deliberative process through which Executive policy is developed, traditionally have not testified before Congress.

Thank you for your understanding in this matter.

With best regards,

Sincerely,



Nicholas E. Calio
Assistant to the President
for Legislative Affairs

The Honorable Henry B. Gonzalez
Chairman
Committee on Banking, Finance and Urban Affairs
House of Representatives
Washington, D.C. 20515

**2128 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6060**

May 15, 1992

[illegible]

The May 4, 1992 White House letter states that longstanding tradition and the doctrine of separation of powers have traditionally precluded persons such as yourself, a former Deputy Assistant to the President and Director of the Office of Cabinet Affairs, from testifying before the Congress. These attempts to block our inquiry by raising a form of executive privilege does not absolve you from your responsibility to testify before the Banking Committee.

There is ample precedent of Congressional rejection of a claim of executive privilege resulting in the testimony of a White House aide before Congress. In April of 1972, Peter M. Flanigan, a Presidential assistant, testified before the Senate Judiciary Committee related to the ITT antitrust scandal. His appearance was required by the Committee in spite of claims of executive privilege raised on Mr. Flanigan's behalf by Presidential counsel, John W. Dean III. More recently, Robert McFarlane testified before the House Intelligence Committee in 1985 regarding the Administration's violations of the Boland amendment. Mr. McFarlane's claim of executive privilege also was rejected by the Committee.

Clearly the White House attempt to block your appearance before the Banking Committee is an effort to conceal from the American public the Administration's faulty policy towards Iraq. Spurious claims of executive privilege should not deny the American people a public examination of that failed and tragic policy.

Accordingly, the Banking Committee insists that you appear at the May 21, 1992 hearing on the USDA's decision to approve the \$1 billion FY 1990 CCC program for Iraq. Your input is essential in order to understand the U.S. policy towards Iraq and the reasons behind the Administration's decision to approve the FY 1990 CCC program for Iraq.

Sincerely,

 Henry B. Gonzalez
 Chairman

HBG:dk

STEPHEN I. DANZANSKY

3609 EDMUNDS STREET, N.W.
WASHINGTON, D. C. 20007

May 20, 1992

The Honorable Henry B. Gonzales
Chairman
Committee on Banking, Finance and
Urban Affairs
U.S. House of Representatives
1129 Rayburn House Office Building
Washington, D.C. 20515-8050

Dear Mr. Chairman:

I have sent to the White House by FAX your letter of May 15,
which I just received yesterday. I have been told that Mr. Calio's
office will be communicating a response.

Respectfully,



STEPHEN I. DANZANSKY

THE WHITE HOUSE
WASHINGTON

MAY 21 1992

May 20, 1992

Dear Mr. Chairman:

This responds to your letters of May 1 to Richard Haass, Special Assistant to the President for National Security Affairs, as well as your most recent letter of May 15 to Stephen Dansansky, former Deputy Assistant to the President for Cabinet Affairs. As I indicated to you in my letter of May 4, it is the long-standing practice of the Executive Branch to decline requests for testimony by members of the President's personal staff. For that reason, I must decline your request for personal testimony by Dr. Haass and your renewed request for testimony by Mr. Dansansky.

However, given the unusual circumstance presented here, the Administration is prepared to work with you to develop an alternative, mutually acceptable mechanism by which these officials can be made available to members of the subcommittee. We believe the Administration acted reasonably and properly during the period prior to the Persian Gulf conflict. We are anxious to ensure that the subcommittee has an accurate picture of Administration policy and actions.

Sincerely,



Nicholas E. Calio
Assistant to the President
for Legislative Affairs

The Honorable Henry B. Gonzalez
Chairman
U.S. House of Representatives
Committee on Banking, Finance and Urban Affairs
Washington, DC 20515

**Sample of White House and NSC Staff Involved in Handling of
BNL Scandal and the CCC Program for Iraq**

The current and former White House and National Security Counsel staff involved in the decision to win approval for the CCC program for Iraq and/or the administrative review of the BNL scandal include:

General Brent Scowcroft, National Security Advisor;
C. Boyden Gray, Counsel to the President;
John P. Schmitz, Deputy Counsel to the President;
Richard N. Haass, Senior Director, North East and South Asian Affairs, NSC;
Clayton Yeutter, Special Assistant to the President and former Secretary of Agriculture;
Stephen I. Danzansky, Director, Office of Cabinet Affairs;
C. Nicholas Rostow, Legal Advisor, NSC;
Ms. Sandra Charles, Director, North East and South Asian Affairs, NSC;
Edith E. Holiday, former General Counsel, Treasury Department and the current Secretary of the Cabinet;
Timothy E. Deal, Senior Director, International Economic Affairs, NSC.

Chairman Gonzalez has written to the President asking that he make some of these staff persons available for interview, but he has received no reply. He also asked that several of these staff persons be made available for testimony. Again, he has not received a reply. He also asked for White House and NSC documents related to the BNL scandal, the CCC program for Iraq and the USDA administrative review, but again, received no word from the President.



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

000483

May 16, 1990

MEMORANDUM FOR RICHARD T. MCCORMACK
UNDER SECRETARY OF STATE

EDWARD S.G. DENNIS, JR.
ASSISTANT ATTORNEY GENERAL

TIMOTHY DEAL
SPECIAL ASSISTANT
TO THE PRESIDENT AND
SENIOR DIRECTOR
INTERNATIONAL ECONOMIC AFFAIRS
NATIONAL SECURITY COUNCIL

FROM:

Richard T. Crowder
Under Secretary
International Affairs and
Commodity Programs

Alan Charles Raul *ACR*
General Counsel

SUBJECT:

Report of Administrative Review of Iraq GSM
Program

Attached for your review and clearance is a draft report of USDA's administrative review of certain transactions in connection with the GSM program for Iraq. We intend to release this document to the House and Senate Agriculture Committees, and make it available to the public, together with an executive summary and a press release. We believe it is essential to get these facts and conclusions out to the public as soon as possible.

In essence, after interviewing Iraqi agriculture officials and certain U.S. exporters, and reviewing certain bank records, exporter records and Iraqi records, we have concluded that certain Iraq GSM transactions improperly included freight charges within the amounts that were registered with USDA. In addition, the evidence suggests that a number of exporters provided Iraq with "after sales services" in possible violation of the GSM regulations.

UNCLASSIFIED**FAX TRANSMITTAL SHEET**

002027

FROM: SANDRA CHARLES**TELEPHONE:** 395-3552**FAX NUMBER:**

	TO	PHONE	FAX NUMBER
1.	Richard Crowder	447-3111	447-8254
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____

SPECIAL INSTRUCTIONS:**UNCLASSIFIED**

check —

with this press release,
the NSC has no objection
to your releasing the report.
Suggest you coordinate w/State.

002228

May 18, 1990

DRAFT PRESS RELEASE

Sandy Chalk

Washington, D.C., May ____, 1990. Under Secretary of Agriculture Richard T. Crowder released today the results to date of the U.S. Department of agriculture's administrative review of the Export Credit Guarantee Program (GSM-102) for Iraq.

The administrative review has involved the examination and analysis, over the past seven months, of certain records pertaining to GSM-guaranteed sales to Iraq, including information submitted by exporters to the Commodity Credit Corporation (CCC), bank records and exporter records. As part of the review, a USDA team travelled to Baghdad for discussions with Iraqi officials, and review of Iraqi documents, on April 17-22, 1990. The Office of the General Counsel, the Foreign Agricultural Service, CCC and the Department of State were represented on the review team.

The administrative review focused on four particular potential problem areas identified by USDA: unusually high commodity prices in GSM sales to Iraq during the period 1985-1987; Iraqi requests to exporters for "after sales services"; attempts by Iraq to impose certain taxes on GSM transactions; and questions regarding the arrival of commodities in Iraq.

The U.S. government has not incurred any losses as a result of GSM-guaranteed sales to Iraq. Iraq has participated in the GSM program since 1983 and has purchased more than \$4.5 billion in U.S. agricultural products.

NEWS

*United States
Department of
Agriculture*

*Office of the
Secretary*

*Press Secretary
Room 209-A
Washington, D.C. 20250*

Kelly Shipp (202) 447-4623

ADMINISTRATIVE REVIEW OF IRAQ GSM-102 PROGRAM

WASHINGTON, May 21—Under Secretary of Agriculture for International Affairs and Commodity Programs Richard T. Crowder released today the results to date of the U. S. Department of Agriculture's administrative review of the Export Credit Guarantee Program (GSM-102) for Iraq.

The administrative review has involved the examination and analysis, over the past seven months, of certain records pertaining to GSM-guaranteed sales to Iraq, including information submitted by exporters to the Commodity Credit Corporation (CCC), bank records and exporter records. As part of the review, a USDA team travelled to Baghdad for discussions with Iraqi officials, and review of Iraqi documents, on April 17-22, 1990. The Office of the General Counsel, the Foreign Agricultural Service, CCC and the Department of State were represented on the review team.

The administrative review focused on four particular potential problem areas identified by USDA: unusually high commodity prices in GSM sales to Iraq during the period 1985-1987; Iraqi requests to exporters for "after sales services"; attempts by Iraq to impose certain taxes on GSM transactions; and questions regarding the arrival of commodities in Iraq.

The U.S. government has not incurred any losses as a result of GSM-guaranteed sales to Iraq. Iraq has participated in the GSM program since 1983 and has purchased more than \$4.5 billion in U.S. agricultural products.



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

000627

DATE: March 16, 1990TO: Sandra L. Charles
Director, NE & Asian Aff.
Natl Sec. CouncilTELEPHONE NO. 395-3552 FAX NO. 395-7350FROM: Kevin J. French
Office of the General Counsel
USDATELEPHONE NO. 447-2946 FAX NO. FTS 245-5091
(202) 245-5091PAGES SENT (INCLUDING COVER SHEET): ~~2~~ 3

REMARKS:



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

000624

DATE: March 16, 1990

TO: Nicholas Rostan, Esq.
General Counsel
Natl Security Council

TELEPHONE NO. _____ FAX NO. 395-7370

FROM: Kevin J Brosch
Office of the General Counsel
USDA

TELEPHONE NO. 447-2940 FAX NO. FTS 245-5091
(202) 245-5091

PAGES SENT (INCLUDING COVER SHEET): 3

REMARKS:

Sandra Charles

MEMORANDUM

April 2, 1990

RE: U. S. Rice Exports to Iraq
Agricultural Export Credit Guarantee Program (GSM-102)

I. ACTION REQUESTED

- A. The rice industry requests congressional assistance in obtaining USDA approval of a \$ 500.0 million GSM-102 export credit guarantee allocation for Iraq. This amount represents the balance of Iraq's FY 90 GSM-102 allocation. The first \$ 500.0 million was approved in December 1989. Virtually all of this amount has been contracted. USDA has withheld approval of the second allocation for the past several weeks pending announcement of indictments by an Atlanta federal grand jury. If there are substantive reasons for cancelling the GSM-102 program to Iraq, USDA should make an announcement now. If there are not, then USDA should proceed with the program's implementation as soon as possible. Further delay will have serious adverse consequences for the U. S. rice market.
- B. Key official: Mr. Richard Crowder, USDA Undersecretary for International Affairs and Commodity Programs.
- C. The rice industry urges defeat of legislative efforts (e.g. Serman sanctions amendment in the House) to mandate trade sanctions against Iraq that include denial of agricultural export credits and credit guarantees. Agricultural embargoes are ineffective and damaging to our national interests. It makes no sense to punish the Iraqi people by denying them credits to purchase food.

II. IRAQ--U. S. AGRICULTURAL EXPORT MARKET

- A. For the past several years, Iraq has utilized annually about \$ 1.0 billion out of total \$ 5.0 billion GSM-102 program.
- B. To date, all GSM-102 payments due have been made. Debt service is current. Iraq has been an exemplary GSM-102 customer.
- C. After Saudi Arabia, Iraq has second largest known oil reserves in the world. Daily oil exports are expected to double in near future from 3.0 to 6.0

- D. Current international debt, incurred as a result of the Iran/Iraq war, is considered relatively short term because of Iraq's ability to repay. Due to extensive oil income, high population growth rate, and ambitious national rebuilding program, Iraq is most lucrative market in the Middle East for a number of major U. S. economic sectors such as agriculture, energy, manufacturing, telecommunications, aviation, and services. Denial of export credit guarantees for purchase of U. S. agricultural commodities could jeopardize all markets for U. S. goods and services.
- E. Iraq is the 12th largest importer of U. S. agricultural products and the largest buyer of U. S. rice, importing more than twice the amount of the next largest buyer. For FY 90, following expected to be purchased under the GSM-102 program: Barley malt and hops; cotton; dry milk powder; feed grains; hides and skins; leather; lumber; planting seeds; poultry breeder stock; protein concentrates; protein meals; pulses; RICE; sugar; tallow; veg. oils; wheat; wood panel products; wood pulp; wool; and yeast.
- F. Curtailing U. S. rice access to Iraq through the GSM-102 program will result in losses of:
- | | |
|-------------------|-----------------------------|
| Volume: | 521,411 metric tons (MY 89) |
| Quality: | Long Grain (high quality) |
| Value: | \$ 201.0 million |
| % Comm. Exports: | 23% |
| Acres: | 355,000 |
| Rough Rice Value: | \$ 160.0 million |
- G. Long grain rice for Iraq is sourced from Arkansas, Louisiana, Missouri, Mississippi, and Texas. However, loss of Iraqi rice market would have a negative impact on price structure of the entire rice industry, California included.
- H. In order to meet food security requirements and maintain orderly delivery of rice, a basic food staple, Iraq must purchase rice at least six weeks in advance of delivery. Iraq must tender soon for May/June requirements. If it is unable to utilize the GSM-102 program for rice purchases, Iraq will buy from Thailand as was done in January 1990, when 90,000 metric tons were bought with Thai credits. Iraq, in frustration, will be forced to turn away from the United States rice market because of our inability to be a reliable seller.

III. ATLANTA GRAND JURY INVESTIGATION

- A. In the latter part of 1989, a federal grand jury was convened in Atlanta to investigate alleged transactional irregularities committed by the Atlanta branch of an Italian bank (BNL). Of the approximately \$ 3.0 billion worth of transactions scrutinized, about \$ 750.0 of GSM-102 program monies were reportedly involved.
- B. Majority of the grand jury's focus appears to be on banking irregularities. Initially, there were reported allegations about problems with GSM-102 high value commodities. Other than some technical and procedural issues, there do not appear to be any significant problems with procurement of bulk grains.
- C. Because of the secretive nature of the grand jury process, it has been virtually impossible to determine specific nature of charges and to separate rumor from fact.
- D. It is expected that indictments will be announced in the near future. However, this has been an expectation for the past four weeks.

IV. ARMS EXPORT CONTROL ACT VIOLATIONS

- A. Determining violations of the Arms Export Control Act by Iraqi citizens and others will be responsibility of the U. S. court system. Our judicial system can be expected to handle these cases just as effectively and thoroughly as it did cases involving other Middle Eastern countries for espionage (Israel) and illegal arms shipments (Iran and Egypt).
- B. These judicial issues, which are not germane to U. S. agricultural export programs and policies, should be separated from those impacting on approval of the GSM-102 program.

V. U. S. GOVERNMENT INTERAGENCY POSITIONS

- A. During the fall of 1989, there was intense debate among agencies regarding approval of Iraq's request for an FY 90 GSM-102 allocation of \$ 1.0 billion. State Department and National Security Council supported a decision favorable to Iraq. ONI and Treasury were opposed due to Iraq's creditworthiness. USDA's position appeared to be tempered by the Atlanta investigations. Efforts of the State

one-half of Iraq's requested allocation, or \$ 500.0 million. Judge Sofaer's group apparently determined that, while there were allegations of irregularities, there was no basis to deny Iraq's request. The balance of \$ 500.0 million was to be addressed at a later date after review of events in Atlanta.

- B. Present interagency positions regarding the second \$ 500.0 million have not changed since the fall of 1989. Treasury is expected to be even more vehement in its opposition as it tries to impose some type of international management framework of Iraq's foreign debt.

VI. USDA POSITION

- A. USDA has statutory authority, with ADVICE of other involved agencies, to implement or not implement GSM-102 programs. The Department can ignore advice of other agencies if it so chooses.
- B. Regarding Iraq's GSM-102 program, Mr. Crowder's position is that USDA will not make any decision now because it is fearful of jeopardizing integrity of export credit guarantee programs. A decision will be made after results of the grand jury's Atlanta investigation are known. There is no time frame given as to when this will occur.
- C. Mr. Crowder's concerns are basically two-fold: legal and political. The latter seems to consist of congressional representations that appear to be anti-Iraqi in nature. Legal issues appear to be cloudy from an outside perspective.

VII. RICE INDUSTRY POSITION

- A. Since 1974, the Rice Council, The Rice Millers' Association, and individual companies have expended significant monies and man-hours to develop Iraq into the U. S. rice industry's premier rice market.
- B. To date, U. S. cooperatives, independent mills, and exporters have received or acquired inventories of rough rice for future sales to Iraq. Strategic business decisions regarding future sales must be made by involved companies within the next two weeks. They cannot afford to sit and wait for some undefined period.

- C. Liquidation of large rough rice inventories previously purchased for sale to Iraq would have a disastrous impact on 1990 rough rice prices (especially during the August-October harvest period), futures prices, and rice section of upcoming farm legislation.
- D. The rice industry needs a decision to be made NOW so that it can get on with business. If USDA is aware of any reason that would adversely impact on the GSM-102 program for Iraq and necessitate cancellation, the Department should inform the marketplace now. On the other hand, if technical irregularities exist, then USDA should move expeditiously, in cooperation with Iraqi authorities, to resolve such problems administratively.
- E. Regarding the Atlanta grand jury investigation, the Iraqi GSM-102 program, in principle, should not be judged guilty until proven innocent. We should not penalize the entire program for the irregularities of a few. We must remember that Iraq purchases 24 different commodities from the United States over a twelve month period. More than twenty-five state agencies are involved in procurement of these items.

MEMORANDUM

TO:

Deputy Legal Advisor
Department of State

FROM:

Kevin Brosch. *Kevin Brosch* 3/16/90
Office of the General Counsel -- FACS
Department of Agriculture

As I discussed with you last evening, we did not have an opportunity to review the letter sent to you by the Justice Department yesterday which requested meetings with Iraqi officials here in Washington. Apparently, Justice determined to redraft the proposal we had made without our review, and to present the letter to State on its own, rather than as a joint proposal from Justice and Agriculture.

We have concerns with that letter, as Justice has drafted it. Our General Counsel has decided that it would be best for us to provide our own request letter, independent of that previously provided by Justice, which expresses Agriculture's specific need to meet with a competent and knowledgeable delegation with specific responsibility for Iraq's current policies and practices vis-a-vis the GSH-102 program. We will inform Justice of our decision to proceed along this track.

Attached is a copy of a draft letter the General Counsel has asked me to prepare. If this meets with your concurrence, we will have it cleared and provide it to you with a cover letter from the General Counsel.

Please let me have your reaction as soon as possible. I am providing a draft simultaneously to Mr. Rostow and Ms. Charles at NSC.

March 16, 1990

The Honorable April Gillespie
United States Ambassador to Iraq
Baghdad, Iraq

Gillespie
Dear Ambassador Gillespie:

The United States Department of Agriculture (USDA) and the Commodity Credit Corporation (CCC) have been conducting a review of CCC's Export Credit Guarantee Program (GSM-102) with Iraq. As you know, this review arises in the context of a number of recent allegations of possible impropriety that have surfaced as a result of the grand jury investigation being conducted by the Department of Justice concerning the Atlanta agency of Banca Nazionale del Lavoro (BNL). We take note, and appreciate, that the Government of Iraq has on ~~repeated occasions~~ assured representatives of the United States that it shares our concerns over this matter and wishes to cooperate with U.S. authorities in any investigation.

The USDA/CCC review is being conducted independent of the grand jury investigation of BNL in Atlanta pursuant to CCC's independent regulatory authority. This review is important to our continuing oversight responsibilities regarding current and pending GSM export credit guarantees. At this point in the review, we have determined that it is essential that USDA personnel meet with competent and informed representatives of the Government of Iraq to discuss our concerns about a number of issues that have come to our attention as a result of our review. USDA would wish to discuss specific questions regarding past Iraqi practices with respect to GSM contract pricing, shipment, tendering practices, requests for additional services, imposition of special taxes and other related issues.

We therefore respectfully request that the Government of Iraq appoint an appropriate delegation to meet with officials of USDA in Washington, D.C. or at a mutually agreeable location on March 25, 1990, or as soon thereafter as possible to discuss these matters.

Sincerely,

FOR RELEASE ON DELIVERY
EXPECTED AT 9:30 A.M.
May 21, 1992

STATEMENT BY
THE HONORABLE JOHN E. ROBSON
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES
MAY 21, 1992

Mr. Chairman and Members of the Committee:

I welcome this opportunity to discuss the role of the National Advisory Council on International Monetary and Financial Policies (NAC) concerning the Commodity Credit Corporation's FY 1990 program for Iraq. As the Committee is aware, the NAC recommended that the 1990 CCC program for Iraq go forward.

What I have to say is not complicated. I am going to outline for you how the NAC undertook an orderly, deliberative assessment of the pros and cons of proceeding with the proposed program, and how, with our eyes open as to the uncertainties and possible risks, we weighed the pros and cons, came to a decision, and established some measures to help protect against those risks.

Today, of course, in 1992, we and the rest of the world know the events that took place subsequent to the NAC's recommendation in 1989. And in retrospect, even with that knowledge, I firmly believe that the NAC process leading to its recommendation was open, grounded in the facts then at our disposal, and responsible.

Organization and Functions of the NAC

Before getting into the specifics of the NAC's consideration of the Iraq program, it may be useful background to discuss briefly the organization and operations of the NAC.

The NAC was established in 1945 by the Bretton Woods Agreements Act, the same legislation which authorized the United States' membership in the World Bank and the International Monetary Fund. At present, the NAC's chief activities concern the loan and guarantee programs of the Export-Import Bank, the CCC's GSM-102 and GSM-103 credit guarantee programs, and P.L. 480 debt reduction under the Enterprise for the Americas Initiative.

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As its name implies, the NAC is an advisory body only. It cannot veto a transaction proposed by the Export-Import Bank or USDA. Usually, consensus is reached among the members regarding NAC positions on proposed transactions. The bulk of the work of the NAC is handled by its Staff Committee. However, any member has the right to request that a meeting be convened of representatives from the NAC member agencies at higher policy levels such as the NAC Alternates, an assistant secretary-level group, or at the deputy secretary or Cabinet level.

Regarding the Committee's question about the classification of NAC minutes, my staff reviewed our records of NAC meetings and found that NAC minutes were classified on 25 occasions since the mid-1960s.

NAC Consideration of CCC Programs for Iraq

In early August of 1989, the Department of Agriculture presented to the NAC a proposal for a program for one billion dollars in CCC guarantees to Iraq for FY 1990.

The NAC considered the proposed program in a series of meetings over roughly a two-month period. This debate culminated in early November 1989 at a meeting of the NAC at the deputy secretary level, which I chaired.

- In an October 1989 meeting of the NAC Staff Committee, USDA requested NAC action on its FY 1990 program. In the course of the discussion, the Staff Committee suggested that USDA propose to the Iraqis a \$400 million first tranche on a FY 1990 CCC credit program.
- A month later, the NAC Staff Committee held a meeting at which the Agriculture Department representative stated that Iraq regarded the \$400 million program as insufficient for its needs. Accordingly, USDA repropoed a one billion dollar program for Iraq, but indicated that the guarantees would be made available in two equal tranches: the first \$500 million to be granted currently and the remaining half to be contingent on satisfactory resolution of the Banca Nazionale del Lavoro (BNL) affair, which had come to light in late summer of 1989. In the course of the discussion, Treasury asked that the issue be referred to a higher level.

Four issues were paramount in the NAC's discussions throughout this series of meetings: Iraq's creditworthiness; the U.S. interest in maintaining our share of the Iraqi market for agricultural exports; possible wrongdoing by Iraqi officials with respect to the CCC program arising out of the BNL affair; and U.S. foreign policy interests. Let me turn to the consideration of these issues.

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Creditworthiness. Concerns about Iraq's future repayment of its guaranteed credits were based on reports of Iraq's failing to make scheduled payments to creditors in other countries and high military expenditures which raised questions about the future availability of funds to service its debts. Iraq had not undertaken to reschedule its overall official debt through the Paris Club mechanism and had attempted to work out rescheduling agreements with various creditors on a bilateral basis. Iraq was not in arrears on debt to the U.S. at that time and Iraq's record in servicing its U.S.-guaranteed debt was excellent. Moreover, Iraq's large oil reserves were an apparent long-term source of foreign exchange to service its obligations.

Trade. The possibility that U.S. farmers and agricultural exporters could make or lose substantial sales in Iraq was a matter of concern. The United States had already lost sales there, and Iraq would be making its buying decisions soon. A number of U.S. agricultural exporters had valid contracts with Iraq and were waiting to register with the CCC.

BNL. The BNL affair involved the Atlanta branch of BNL, which had allegedly financed large amounts of exports to Iraq and had hidden this fact from Federal regulators as well as BNL's head office. A portion of this financing was guaranteed by the CCC under its GSM-102 program.

The Department of Justice first uncovered the apparent irregularities and immediately began a criminal investigation. A number of other agencies, including USDA and the Federal Reserve, also initiated their own investigations. The Treasury Department supplemented this information through contacts between its legal staff and the U.S. Attorney's office in Atlanta.

In evaluating proposals for additional CCC guarantees for Iraq, concerns were raised about the possible effects of the BNL affair on the CCC program, including the possibility that Iraqi officials had illegally used credits extended by BNL and guaranteed by CCC to benefit themselves or the Government of Iraq.

One possibility considered was to delay action on the proposal for the FY 1990 program for Iraq pending clarification of the BNL situation. There were rumors but no firm evidence of Iraqi official involvement or complicity in improprieties in connection with the CCC program. Moreover, it was observed that it might take many months before the BNL situation was clarified.

Foreign Policy. Deputy Secretary Eagleburger will cover in detail the U.S. foreign policy context of the Iraqi CCC program. Let me simply say that the State Department was consistent and firm in its view of the Iraqi relationship's foreign policy significance to the United States and the importance of the CCC program to the maintenance of that relationship.

The November 1989 NAC Deputies Meeting

An NAC deputy secretary-level meeting (at which the State Department was represented by its Under Secretary for Political Affairs) was convened on November 8, 1989 to review the USDA proposal for the one billion dollar CCC program in two \$500 million tranches. My approach to the meeting was that the proposed program should be evaluated first on the basis of whether it was responsible from a programmatic standpoint, and second that our deliberative process in reaching our decision considered all relevant issues.

We were to decide whether or not the CCC should proceed with the FY 1990 Iraqi program. And the path to that decision required us to examine and weigh Iraq's creditworthiness, the possible involvement of Iraqi officialdom in the BNL affair, U.S. trade and agricultural export interests, and foreign policy considerations. This we proceeded to do.

As to the BNL affair, the Department of Agriculture submitted a report which concluded that the evidence which had been developed at that time by the investigations of BNL's activities did not indicate Iraqi wrongdoing with respect to the CCC program.

Some voiced concerns that the full scope of the BNL situation had not yet been investigated and might ultimately reveal Iraqi involvement in improprieties involving the CCC program. However, it was recognized that to delay the decision until the conclusion of the full BNL probe would mean the loss of this round of agricultural export sales to Iraq, which wanted the products immediately and would buy from alternate sources. All agreed that the tranching the guarantees into two segments offered, from this point of view, a degree of protection against future revelations.

On the creditworthiness issue, it was pointed out that Iraq was not in arrears in its repayments to the CCC and Eximbank, and that Iraq had substantial oil reserves as a source of future revenue to service its debt. But Iraq's record with respect to the handling of its financial relations with other creditors was cause for concern.

We also reviewed the foreign policy considerations. These discussions centered on the importance of the CCC guarantees to the maintenance of U.S. relations with Iraq and the harm that terminating the CCC program would cause to that relationship and to the prospects for achieving our foreign policy objectives in areas where we sought Iraq's cooperation.

Finally we discussed the importance of the Iraq CCC program for U.S. agricultural exports. It was pointed out that Iraq was the tenth largest export market for U.S. agricultural commodities;

among other things, it accounted for 20 percent of all U.S. rice exports. What was at stake here was the possible loss of one billion dollars in exports if the United States did not provide the proposed credit guarantees. Iraq was ready to move and third countries were willing to fill the orders at the expense of U.S. exporters.

After a thorough discussion and balancing of the pros and cons of the various aspects of the proposal -- creditworthiness, the uncertainties of the BNL situation, and U.S. foreign policy and agricultural export interests -- the consensus of the meeting was to recommend that the CCC's proposed FY 1990 program for Iraq go forward.

In order to provide some degree of risk protection, the deputies confirmed the two-tranche delivery of the guarantees and also agreed to a number of other conditions for the program including:

- Senior USDA officials would closely monitor the program.
- The program would be suspended under certain conditions and USDA would ensure that the Government of Iraq would cooperate fully in investigating any wrongdoing in connection with the program.
- USDA's review of the existing GSM program had already resulted in installing additional controls to tighten the monitoring and enforcement of its guarantee programs and to raise the probability that any irregularities would be detected at an early stage.
- For the NAC record, the Departments of State and Agriculture would provide letters confirming the trade, agricultural, and foreign policy reasons which made it important to proceed with the 1990 CCC program for Iraq.
- Before committing to a second tranche under the program, USDA would send a written report to the NAC detailing (1) the safeguards and controls that it had established in connection with the Iraq program in particular and the export guarantee programs in general and (2) developments in the investigations of the BNL situation.

In addition, USDA committed itself to report to the NAC any significant developments with respect to the BNL affair which might have ramifications for the Iraq program as soon as they became known.

The NAC revisited the CCC program for Iraq early in 1990. The NAC Alternates met in February to review what had happened since the Deputies meeting and to discuss the release of the second tranche under the program.

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The Agriculture Department representative reported that of the \$500 million in guarantee authority allocated for the first tranche of the Iraq program, \$484 million had been committed as of that date. The group was also informed that Iraq had made a request for release of the second tranche, but no action had yet been taken. It was noted that, per the agreement reached in the November Deputies meeting, USDA was committed to returning to the NAC before proceeding with any further guarantees for Iraq. As the Committee is aware, Mr. Chairman, the second tranche of the 1990 CCC guarantee was never released.

Regarding the BNL affair, there was discussion of the various investigations that U.S. Government agencies were conducting. It was reported that, although indictments in the case were thought to be imminent, no evidence of wrongdoing on the part of the Iraqis with respect to the program had yet been found.

Conclusion

Mr. Chairman, I would like to conclude by repeating my firm view that the NAC reviewed the FY 1990 CCC guarantee program for Iraq in a responsible, orderly manner.

One can play the role of Monday morning quarterback and second guess the NAC recommendation in light of what has transpired since November, 1989. But, as is often the case in policy-making, by the executive and legislative branches, decisions are made on the basis of imperfect information and without the ability to predict the future. The agencies involved in the NAC recommendation were diligent in presenting the facts and arguments. So we weighed the pros and cons, provided some extra measures of protection for our interests, and made our decision.

I hope that my presentation has helped you to understand better the NAC process and how the NAC dealt with the CCC program for Iraq.

I would welcome any questions you may have.

STATEMENT OF
THE HONORABLE LAWRENCE S. EAGLEBURGER
DEPUTY SECRETARY OF STATE
BEFORE
THE HOUSE COMMITTEE ON BANKING,
FINANCE AND URBAN AFFAIRS
MAY 21, 1992

Mr. Chairman and Members of the Committee:

I plan this morning to do my best to set the record straight on the U.S. Government's policy toward Iraq during the latter half of the 1980s and in 1990, and to place in context the role of the Commodity Credit Corporation (CCC) program. I intend to make clear that the Administration followed a prudent policy toward Iraq at the time -- including the management of the CCC program -- even though we, and other governments, were ultimately unable to restrain Saddam Hussein.

In explaining U.S. policy, I also plan to address many of the factual and legal misstatements currently being put forth by Members of this Committee. Quite frankly, the selective disclosure -- out of context -- of classified documents has led -- knowingly or otherwise -- to distortions of the record, half truths, and outright falsehoods, all combined into spurious

conspiracy theories and charges of a "cover up." For those interested in the truth, let me make the following ten points

- First, neither the Agriculture Department's investigation of the Commodity Credit Corporation (CCC) program, nor the U.S. Attorney's investigation of BNL-Atlanta, has, to date, established diversion to third countries of commodities sold to Iraq or Iraqi misuse of the CCC program to purchase military weapons
- Second, we have found no indication that the State Department had in November 1989, or has today, specific evidence that such diversions occurred.
- Third, neither the criminal indictment handed down in Atlanta in February 1991, nor the May 1992 plea agreement of a U.S. exporter to Iraq, contain evidence of or allegations that CCC-guaranteed commodities for Iraq were diverted to other countries or used for military purposes.
- Fourth, approximately 90 percent of the \$5 billion in credit guarantees extended to Iraq between 1983 and 1990 for the purchase of U.S. agricultural exports was provided prior to Fiscal Year 1990 and received broad support among Members of Congress and by American farmers and commodity groups.
- Fifth, CCC extended only one tranche of \$500 million in credit guarantees to Iraq in Fiscal Year 1990. Of this \$500 million, over 20 percent of it did not become effective because of the Gulf War. Moreover, the remaining \$392 million represents an official liability of the Government of Iraq. U.N. Security Council Resolution 687 provides that Iraq's repudiation of its foreign debts is null and void, and demands that Iraq adhere to all of its obligations. The Administration intends to assert claims against Iraq for any amounts that the U.S. Government is required to pay on CCC guarantees.
- Sixth, shortly after the U.S. Attorney's office in Atlanta initiated its investigation of Banca Nazionale del Lavoro (BNL), Agriculture reached an agreement with BNL that BNL would not participate in the CCC program for Fiscal Year 1990. Accordingly, BNL was not assigned

any of the \$392 million in CCC credit guarantees extended for agricultural exports to Iraq in Fiscal Year 1990, and will not receive one cent in U.S. taxpayer money for the payment of claims against those guarantees.

- Seventh, during the period that the CCC extended the \$392 million in credit guarantees, Iraq actually made hard currency payments of approximately \$847 million. Thus, despite concerns about Iraq's creditworthiness, there was a net reduction in CCC's exposure with regard to Iraq of about \$455 million.
- Eighth, the October 13, 1989 memorandum, to which Members of this Committee have repeatedly referred in making certain charges, merely speculates about allegations on Iraq's use of CCC guarantees. Most of the allegations in that memorandum have not, to date, been established.
- Ninth, the suggestion that the Administration has sought to "cover up" its policy toward Iraq is simply not true. Few U.S. government policies have been so carefully and so extensively examined by the Congress and by the media as this one. To this Committee alone, the State Department has provided over 4,000 pages of documents at a cost of over \$100,000 in employee hours. Other agencies have provided large quantities of documents as well.
- Finally, the State Department has been prepared to turn over additional documents. However, in light of the knowing and unauthorized disclosure of classified materials by Members of this Committee, the Administration determined last week, in accordance with its obligations under Executive Order 12356, not to permit further release of documents until it receives appropriate assurances from this Committee regarding the storage and protection of such materials. Failing such assurances from the Chairman, the Administration is prepared to make available appropriate documents to the Speaker of the House or to members or committees that he might designate.

I will now turn to a discussion of U.S. policy toward Iraq, the role of the CCC program, and the specific questions posed by this Committee.

I. U.S. Policy Toward Iraq

During Iraq's eight-year conflict with Iran, there was broad bipartisan consensus in this country that an Iraqi defeat at the hands of an extremist Iran would be disastrous for our interests in the region. Many of our allies, as well as the Gulf states themselves, shared this view. Although U.S. policy on the war was neutral, there was a subtle leaning toward Iraq, in public statements as well as in selected other actions, but without any provision of weapons or weapons systems to the Iraqi government.

With the end of the Iran-Iraq War in the summer of 1988, and by the time President Bush took office, Iraq had emerged as the preeminent military power in the Persian Gulf. The Administration promptly undertook an extensive review of U.S. policy in that region, including U.S. policy toward Iraq. The key issue was whether U.S. interests in the Persian Gulf remained vital in view of the changed strategic environment there, and, if so, whether the existing investment of American power and diplomatic influence in the region reflected that importance. We concluded that access to Persian Gulf oil and the security of key friendly states in the area were, in fact, vital to U.S. national security, and that we were committed to defending those interests, hopefully with the support and participation of our friends in the region, Western allies, and Japan.

With regard to Iraq, the Administration recognized the difficulty of developing a clear cut policy. On the one hand, it appeared that Iraq had made a conscious decision to moderate its behavior since we had normalized relations in 1984. Iraq had, for example, reduced its support for terrorist groups and had, in fact, expelled the Abu Nidal Organization from its soil. Moreover, Iraq possessed significant oil reserves, was a major oil producer, and was increasing its supply of oil to this country. Post-war Iraq also appeared seriously interested in economic reconstruction and in expanding commercial ties with the West.

On the other hand, we fully recognized that there were still important issues that stood in the way of close relations. These included Iraq's human rights abuses, its chemical weapons program, our suspicions that Iraq might be developing biological and nuclear weapons, Iraq's efforts to build long-range missiles, and its involvement in Lebanon. Still, Iraqi membership in the Arab Cooperation Council, alongside close American friends such as Egypt and Jordan, appeared to offer the prospect of moderating Iraqi behavior. We also hoped that Iraq could play a helpful role -- or at least not play an unhelpful role -- in the Middle East peace process.

Recognizing these competing concerns, the Administration considered three major options in dealing with a post-war Iraq. First, we could expand our relations and try to embrace the Iraqis. Second, we could maintain our slow and steady course, seeking to probe, test, and encourage the Iraqis while being wary of their intentions. Or third, we could seek to isolate the Iraqis by punishing them for behavior we did not condone.

Given the unpredictability of Saddam's behavior and the uncertainty about his regional aspirations, we rejected the first option of expanding relations rapidly. We also recognized that we could not effectively isolate Iraq by acting unilaterally and that there would be no support from either our European allies or our friends in the Arab world for confrontation with Iraq. The third option, therefore, offered us little leverage over Iraqi behavior while potentially undercutting our broader interests in the Persian Gulf. We thus determined that these broader interests -- including continued access to the region's oil, stability of friendly area states, and deterrence of Soviet intervention and influence -- required a policy that sought, if possible, to engage Iraq and to offer the Iraqis a mix of incentives and disincentives, but without any illusions.

In adopting this policy, we decided to make clear to the Iraqi leadership that any use of chemical or biological weapons, or violations of IAEA nuclear safeguards, would lead to economic and political sanctions, for which we would seek the broadest possible support from our allies and friends. We also agreed that Iraq's human rights record and its meddling in internal affairs of others would continue to weigh heavily on our policy. At the same time, we would encourage Iraq to play a constructive role in the peace process, and we agreed to support the efforts of American companies to participate in Iraq's economic reconstruction and in the development of its energy sector.

In short, the Administration concluded that the evolution of normal relations with Iraq -- something that would require more constructive Iraqi behavior in a number of areas -- was in the U.S. national interest. Toward this end, we determined that it was worth trying to build on our successful diplomatic cooperation with Iraq during its war with Iran, and attempting to develop a modest economic relationship. However, our policy also included maintaining a capable military presence nearby, providing arms and other support to friendly states in the region, and expanding our dialogue with the Soviet Union.

For a period of time, we saw some movement by Iraq in the right direction on several matters. For example, Kurds

were allowed to farm again and they received compensation for seized property; Iraq agreed to pay personal injury claims relating to the crew of the USS Stark; FAA advice on airport security was welcomed by Baghdad airport; a first ever DEA visit to Iraq led to agreement to cooperate against narcotics trafficking; and we had opened a new cultural center in Baghdad that was successfully reaching out to ordinary Iraqis. Moreover, at a time when Iraq was forcing other Western creditors to accept bilateral debt rescheduling, it continued to repay U.S.-guaranteed loans.

Soon, however, a number of Iraqi statements and actions demonstrated that Iraq was not prepared to adopt a more responsible approach to relations with its neighbors or ourselves. As a result, we began to adjust even our modest efforts downwards. We heavily criticized Iraq's human rights record before the U.N. Human Rights Commission and in the State Department's Human Rights Country Report. We also expelled an Iraqi U.N. diplomat for involvement in a murder plot. In March 1990, U.S. Customs, working with the British, successfully interdicted an attempt to smuggle capacitors with possible missile and nuclear applications into Iraq. We also consulted with the British about the confiscation of materials for Iraq's development of the so-called "super gun." And we continued against Iraq a strict policy of denial for sales of weapons and

weapons systems, and intensified our efforts with other countries to tighten existing export controls, focusing on proliferation concerns.

What little remained of the U.S.-Iraqi relationship came to an abrupt end with Iraq's brutal invasion and occupation of Kuwait in August 1990. As it turned out, the fact that the United States had followed a measured policy toward Iraq rather than having sought unilaterally to isolate the Iraqis proved to be a critical factor in our ability to assemble a coalition -- which included Arab countries -- to expel Saddam from Kuwait and, ultimately, to devastate his military capabilities.

II. The CCC Program for Iraq

The Commodity Credit Corporation (CCC) of the Department of Agriculture had first made available credit guarantees in connection with export sales to Iraq in 1983, shortly before we resumed diplomatic relations with the Iraqis in 1984. As Under Secretary Crowder will explain in greater detail, the CCC program is designed to assist U.S. agricultural exporters and producers by developing foreign markets for U.S. commodities. It is, in the first instance, an export promotion and market development program. The CCC guarantee covers the risk of non-payment by a foreign bank under a letter of credit opened to finance the purchase of U.S. agricultural exports. Iraq was

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one of more than 40 countries participating in this program, which served to provide benefits for over 80 different types of U.S. agricultural commodities.

In many respects, our trade balance with Iraq during the latter half of the 1980s was governed by the level of U.S.-guaranteed financing available to Iraq. As U.S. imports of Iraqi oil rapidly expanded toward an estimated \$2.5 billion by 1990, the CCC program helped lessen a growing trade deficit with Iraq. Throughout the period in question and despite its economic difficulties, Iraq maintained a record of consistently and fully meeting financial obligations incurred under the CCC program.

Iraq requested \$1.03 billion in CCC credit guarantees for Fiscal Year 1990. As the Administration began to consider this request, it learned that the U.S. Attorney in Atlanta was investigating the Atlanta branch of Banca Nazionale del Lavoro (BNL) for allegedly conducting a clandestine "greybook" loan operation to Iraq. While much of the money involved in BNL's loan operation was not directly related to the CCC program, approximately \$720 million of BNL-Atlanta's loan portfolio consisted of assigned obligations that were backed by CCC export credit guarantees. Accordingly, as Under Secretary Crowder will explain, investigators with Agriculture's Office of the Inspector General began assisting the U.S. Attorney's investigation in early September 1989.

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The Administration took the BNL allegations seriously, even though at the time no wrongdoing on the part of Iraq had been established. Because of the allegations, the Administration initially postponed any decision on Iraq's request for CCC guarantees for Fiscal Year 1990. Moreover, in Secretary Baker's October 6 meeting with then Iraqi Foreign Minister Tariq Aziz, the Secretary raised the BNL issue, emphasizing the importance of Iraqi cooperation with this investigation, and seeking assurances from the Government of Iraq that it would assist in the investigation. Aziz gave these assurances and Iraq did cooperate when a team from the Department of Agriculture travelled to Baghdad several months later.

In November 1989, the National Advisory Council on International Monetary and Financial Policies (NAC) met at a senior level to consider Iraq's CCC request. As Deputy Secretary Robson will describe further, there was a full exchange on all relevant points regarding the CCC program for Iraq. The Deputy Secretary of Agriculture specifically reported that the BNL investigation had only resulted, to date, in allegations of violations. He further reported that Agriculture's Office of the Inspector General had stated in writing that there was no evidentiary basis for withholding approval of new CCC guarantees for Iraq.

In addition to discussion of the BNL investigation, representatives at the NAC meeting also discussed Iraq's creditworthiness, the importance of Iraq as an agricultural export market, and the Administration's efforts to improve the bilateral relationship. I might note as well that at this time Members of Congress, along with various agricultural trade interests, were urging the Administration to provide the full amount of credit guarantees requested by Iraq.

After a careful balancing of the risks and benefits, the NAC supported the Agriculture Department's recommendation to establish a tiered approach to the CCC program rather than to grant Iraq's request outright. Under this approach, Agriculture decided to extend a first tranche of \$500 million in credit guarantees, with additional guarantees for the year to depend on the results of Agriculture's own administrative review as well as the investigations by its Office of the Inspector General and the U.S. Attorney in Atlanta. The Administration indicated to the Iraqis that the CCC program would be terminated if abuses were discovered.

The Agriculture Department continued to monitor the BNL investigation and consistently received word from its Office of the Inspector General that there was no reason to recommend that the CCC program not go forward. At the same time,

however, Agriculture's own administrative review of Iraq's CCC program indicated a pattern of unexpectedly high prices for certain commodities. Accordingly, by February 1990, without investigations yet completed, the Administration deferred a decision on the second tranche of \$500 million of credit guarantees for Iraq.

During this time, the State Department cooperated with the Justice Department in the Atlanta investigation. This is reflected in correspondence between the two Departments in March 1990, in which the State Department offered to work with Justice attorneys to develop a plan to interview Iraqi officials in connection with the BNL investigation.

The State Department also facilitated Agriculture's administrative review of the CCC program for Iraq. In mid-April 1990, a delegation from Agriculture, with a representative from the State Department's Office of the Legal Adviser, travelled to Baghdad for approximately four days to meet with the Iraqis and to review their records regarding CCC-guaranteed purchases. The officials were granted access to Iraqi records relating to these purchases. Agriculture issued a report in May on the results of this visit. The report did, in fact, find violations by Iraq of CCC program requirements, but did not find diversions of commodities purchased under the program.

After the Agriculture Department had released its report, the Administration chose not to proceed with the second tranche of CCC credit guarantees for Iraq. Indeed, the Administration never granted any further credit guarantees to Iraq beyond those announced in November 1989.

When the United States imposed sanctions against Iraq in August 1990, there were approximately \$1.9 billion in outstanding credit guarantees. Of course, the major portion of those obligations had accumulated during the 1980s. In that regard, it is worth noting that all sanctions legislation against Iraq that the Congress had proposed in the first half of 1990, except for the Inouye-Kasten bill, exempted the CCC program from whatever sanctions might be imposed.

It should also be noted that, of the \$500 million in CCC credit guarantees authorized for Fiscal Year 1990, only about \$392 million actually became effective prior to the imposition of sanctions. Moreover, during the same period, Iraq actually made hard currency payments under the CCC program of approximately \$847 million. Thus, despite concerns about Iraq's creditworthiness, there was a net reduction in CCC's exposure of about \$455 million. In light of the affirmation in U.N. Security Council Resolution 687 of Iraq's continued liability for outstanding debts, as well as our own freezing of

Iraqi assets, the Administration intends to assert claims against Iraq for debts owed to the United States.

III. The Committee's Questions

Within this context, let me turn to the Committee's questions on the Fiscal Year 1990 CCC program. As noted above, the State Department, acting in accordance with Administration policy, viewed the CCC program as one of the positive elements in our effort to develop a constructive bilateral relationship with Iraq. The State Department believed in November 1989 that continuation of CCC-supported trade offered the possibility of expanding and improving that bilateral relationship. This would hopefully have had the additional benefit of moderating Iraq's conduct in areas of concern to us, such as human rights. By April 1990, however, the State Department no longer supported additional CCC credit guarantees for Iraq.

On the issue of creditworthiness, the State Department viewed Iraq's record of repayment of CCC obligations as excellent, even though there were minor delays from time to time. Indeed, during the period in question, Iraq actually made payments to CCC of more than twice the amount it received in new guarantees.

As for the BNL scandal, that issue, of course, had considerable influence on the course of events. It contributed

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to the initial delay in considering Iraq's request for \$1.03 billion in CCC credit guarantees. It led Secretary Baker to request of Foreign Minister Aziz that Iraq cooperate in the investigation. And it contributed to the decision to apply a tiered approach to Iraq's CCC request, granting only a first tranche of \$500 million while the investigation proceeded.

Finally, the Administration remained highly critical of Iraq's human rights record, even though consideration of that record did not specifically affect the State Department's views on the CCC program.

* * *

Mr. Chairman, that is the end of my remarks in response to the questions that you posed. However, I feel compelled in conclusion to comment on the nature of this inquiry. As I prepared for this hearing, I could not but reflect on how the conduct of our government has changed since I began my career with the State Department more than 30 years ago. We now seem to work in an environment of distrust rather than trust, of confrontation rather than cooperation, of accusation rather than fair inquiry. What has been done by the selective disclosure -- out of context -- of classified documents, by the distortions of truth, and by the raising of innuendoes where no

facts exist to support them is to make exceedingly difficult our ability to engage in the deliberative process necessary to formulate policy. No longer can responsible officials voice differences of opinion, provide candid advice to their superiors, or engage in open discussion and debate on an issue without the constant worry that at some point in the future someone will seek to condemn and vilify them for having done no more than perform their duties honestly and to the best of their abilities. I submit that such a situation is in no one's interest and is a disservice to the good governance of this nation.

The diversity of interests, perspectives, and expertise represented by the member agencies of the WAC is a thorough mixing of divergent views on issues that come before the WAC. In most cases, a unanimity of views among WAC member agencies is attained. On those occasions when no consensus is reached, it may indicate a fundamental difference on a particular aspect of the lending program under consideration.

For Release on Delivery
9:30 A.M. E.D.T.
May 21, 1992

Testimony by
Edward W. Kelley, Jr.
Member, Board of Governors of the
Federal Reserve System
before the
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives

May 21, 1992

I am pleased to appear today to comment on the Federal Reserve's participation in the deliberations by the National Advisory Council on International Monetary and Financial Policies (NAC) of the FY 1990 Commodity Credit Corporation (CCC) program for Iraq.

As you know, the NAC has been assigned by Congress the responsibility to assist in formulating U.S. positions in various international financial institutions and to evaluate the policies and practices of U.S. government agencies that make, or participate in making, foreign loans, or provide various forms of credit guarantees as part of U.S. foreign lending programs. The Federal Reserve was designated a member of the NAC under the Bretton Woods Agreements Act of 1945 and has participated in its deliberations since.

The NAC is an advisory body. The principal function of the seven members of the NAC is to review proposed transactions, programs, and policy issues related to those institutions -- both national and multilateral in which the United States is a member -- that are involved in making foreign loans.

The diversity of interests, perspectives, and expertise represented by the member agencies of the NAC allows a thorough airing of divergent views on issues that come before the NAC. In most cases, a unanimity of views among NAC member agencies is attained. On those occasions when no consensus is reached, it may indicate a fundamental difference on a particular aspect of the lending program under consideration,

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often reflecting the particular vantage point and institutional focus of the member agencies of the NAC.

In evaluating lending proposals and programs presented to the NAC, the Federal Reserve draws upon its financial perspective and expertise. The Federal Reserve's principal contributions to the NAC process over time have been its ability to assess objectively the financial and economic soundness of proposals brought before the NAC and to share this expertise with other member agencies.

In light of this specialized focus of the Federal Reserve in NAC deliberations, for those proposals that involve major considerations other than economic and financial issues where the Federal Reserve has special expertise (e.g., where foreign policy or human rights issues are of overriding importance), the practice of the Federal Reserve in NAC deliberations is not to take a position on these matters and to abstain in the formal NAC decisionmaking process.

With regard to the Federal Reserve's position concerning the extension of CCC export credit sales guarantees for Iraq, even prior to the FY 1990 request for such guarantees, the Federal Reserve had become concerned about Iraq's creditworthiness and about the size of the CCC export credit sales guarantee programs that were being proposed for Iraq by the U.S. Department of Agriculture. The Federal Reserve, therefore, was only willing to consider favorably considerably scaled-down programs of such credit guarantees to Iraq.

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In considering the request for \$1 billion in additional CCC export credit sales guarantees for Iraq for FY 1990, Federal Reserve reservations were based on continued concerns about Iraq's creditworthiness at that time. The growing external indebtedness of Iraq and questions about Iraq's ability and willingness to service this debt led to a growing Federal Reserve uneasiness in approving large, new CCC export credit sales guarantees for Iraq. The Federal Reserve also noted Iraq's spotty debt-servicing record with other bilateral official creditors, including incidents of unilateral and selective reschedulings. Finally, the Federal Reserve questioned the appropriateness of allocating one-fifth of the CCC's FY 1990 budget to one country, and of the CCC's having such a disproportionate share of total CCC credits outstanding to one country.

The unfolding Banca Nazionale del Lavoro (BNL) case in the summer of 1989 reinforced the Federal Reserve's reservations and opposition about approving additional CCC export credit sales guarantees for Iraq. The revelations of the BNL case, in fact, led the NAC to postpone a scheduled consideration of the FY 1990 program of CCC export credit sales guarantees for Iraq. Only limited details concerning allegations concerning the connection between the BNL case and the CCC program to Iraq were known at the time that the NAC was considering the proposal for additional export credit sales guarantees to Iraq. However, given the Federal Reserve's ongoing and growing concern about Iraq's creditworthiness, even

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the limited allegations of linkages between the BNL case and the CCC export credit sales guarantee program provided in our view an additional reason to be cautious about further extensions of such guarantees to Iraq.

The Federal Reserve's reservations and opposition related to the FY 1990 CCC program for Iraq, therefore, were based on its evaluation of Iraq's creditworthiness, which was reinforced by the unfolding BNL case.

Statement by
Richard T. Crowder
Under Secretary
International Affairs & Commodity Programs
U.S. Department of Agriculture
Before the
House Committee on Banking, Finance and Urban Affairs
May 21, 1992

Mr. Chairman and members of the Committee: I appreciate the opportunity to appear before you today to discuss the factors and process that led to the allocation in November 1989 of fiscal year (FY) 1990 credit guarantees in connection with sales of U.S. agricultural commodities to Iraq, as well as events and decisions which resulted in our subsequent decision, in May 1990, to deny any additional GSM credit guarantees for that purpose. I will discuss the impact on those decisions of the investigation launched in August 1989 by the United States Attorney for the Northern District of Georgia into alleged fraudulent lending by several employees of the Atlanta agency of the Banca Nazionale del Lavoro (BNL). As you know, other USDA officials and I have testified before Congress on these issues a number of times and I welcome the opportunity to do so again.

Mr. Chairman, I first assumed my current position as Under Secretary of Agriculture in April 1989 and so do not have personal knowledge about events or decisions made prior to that time. However, I was directly involved in the events and decisions surrounding the allocations of GSM credit guarantees for FY 1990, as I will describe in my statement today. At the conclusion of this statement, I will be happy to answer any

questions that you or members of the Committee may have regarding events during my tenure.

The Export Credit Guarantee (GSM-102) and Intermediate Export Credit Guarantee (GSM-103) programs administered by the Commodity Credit Corporation (CCC) of the Department of Agriculture are intended to build and maintain commercial markets abroad for U.S. agricultural products. Under these programs, CCC issues a credit guarantee to a U.S. exporter who has made a sale of agricultural commodities to a purchaser in a designated market. The purchaser must arrange for a letter of credit to effect payment. The CCC guarantee protects the exporter or his assignee against a default by the bank in the foreign country issuing the letter of credit.

The issuance of a credit guarantee does not require any initial expenditure by the government; rather, the guarantee represents a promise to the U.S. exporter by CCC that, in the event that the exporter is not paid under the letter of credit, CCC will pay the exporter and will be subrogated to the exporter's right to collect payment from the defaulting foreign bank. Under the new credit reform procedures, USDA does report the estimated subsidy cost of the programs which is treated as a current expenditure for budget purposes.

CCC issues its credit guarantee to a U.S. agricultural exporter. The guarantee enables the exporter to assign its rights under the letter of credit to a financial institution located in the United States which agrees to finance the sales transaction on deferred payment terms. It is important to note first, that CCC assumes no financial risk with respect to a bank such as BNL that takes assignment of a CCC guarantee; and, second that CCC has no programmatic relationship with U.S. financial institutions that take assignment of the guarantees, nor does it have any authority to serve as a bank regulator. The CCC credit guarantee is, in essence, commercial paper which can be sold by the exporter to the U.S. a financial institution.

The GSM-102 program, under which guarantees are issued in connection with sales having payment terms not to exceed three years, is the largest single export program for U.S. agricultural products, stimulating bank financing for more than 10,000 commercial shipments per year. Since 1980, approximately \$37.8 billion in U.S. agricultural products have been exported to 44 countries through GSM-102-guaranteed sales. GSM-103, under which guarantees are issued in connection with sales having payment terms of over three and up to ten years, is a smaller (\$1.4 billion) but still important program. In both the 1985 and 1990 farm legislation, Congress mandated levels for the GSM-102 and GSM-103 programs. For FY 1990, the year we will be discussing today, Congress mandated that CCC make available a minimum of \$5

billion in GSM-102 credit guarantees and a maximum of \$1 billion in GSM-103 export guarantees.

Although, as I mentioned earlier in my remarks, I was not present at the Department of Agriculture in the early 1980's when credit guarantees were first made available in connection with sales to Iraq, I believe that the history and record of the program in this regard are well known. In your Congressional Record statement of February 4, 1991, Mr. Chairman, you inserted a chart showing the increase in GSM program allocations in connection with sales to Iraq from an initial \$364 million in guarantees announced in 1983 to more than \$1 billion annually for 1988 and 1989. This chart accurately reflects the increases in GSM-guaranteed sales over that period. As your list indicates, Mr. Chairman, total GSM-guaranteed sales to Iraq for the 1983-1990 period exceeded \$5 billion.

The support of members of Congress and American farmers and commodity groups demonstrate that the development of the Iraqi market under the GSM programs during the 1980's was very important to the U.S. agricultural economy, including high value commodities. Iraq ultimately became the second largest participant in the GSM program, exceeded only by Mexico. Iraq became the twelfth largest market for U.S. agricultural exports, and the single largest export market for U.S. rice.

My initial involvement in the issues regarding GSM allocations with respect to Iraq came in the late summer of 1989. As you may know, Mr. Chairman, because the new fiscal year begins in October, it is customary for CCC to finalize its plans for allocating available GSM guarantees among the various participant countries in late summer. As a part of this process, we often engage in consultations and negotiations with potential participant countries. In the case of Iraq, which engaged in central government purchasing, this was regularly done.

In August 1989, we were considering an FY 1990 allocation of credit guarantees in connection with sales to Iraq at the same level as the two prior years -- approximately \$1 billion. CCC's total exposure at that time in connection with previously issued credit guarantees for sales to Iraq was approximately \$2.26 billion. While this was a substantial amount, in our judgment a sizeable program could be justified. Because of its substantial food import needs and dependence on outside sources for approximately 65-70% of its food and feedstuffs, Iraq presented excellent long-term market potential. Iraq had maintained a solid payment record without default since 1983 and had repayments of \$1 billion scheduled in FY 1990. Information suggested that it had adequate resources to pay its CCC-guaranteed debt, and, indeed, it had always treated this as preferred debt.

It was about this time, on August 4, 1989, that the Federal Bureau of Investigation, working in conjunction with the United States Attorney for the Northern District of Georgia, served its initial search warrant on the Atlanta agency of Banca Nazionale del Lavoro, launching what has become known as the BNL investigation.

We were not initially informed of this investigation and did not become aware of its potential implications for CCC until early September 1989. Our records indicate that USDA's Regional Office of the Inspector General (OIG) in Atlanta was asked to participate in the investigation at the end of August. Their notice of case opening on August 31, 1989, came to the attention of Washington program officials several days later.

At this same time, USDA received a request for a meeting from officials and lawyers representing Banca Nazionale del Lavoro, and this meeting was set for September 6, 1989. Although I did not personally attend the meeting, it was later reported to me that BNL representatives met with officials of both the CCC and our Office of the General Counsel to inform USDA that the investigation was underway. USDA officials were told that the investigation involved alleged fraud on the bank resulting from unauthorized loans made by rogue bank officials; that BNL's headquarters in Rome had replaced prior Atlanta management with officials from BNL's Rome and New York offices; and that BNL

wanted to confirm from CCC's records the precise amount of the guarantees which U.S. agricultural exporters had assigned to BNL as part of the new management's reconciliation exercise. CCC's records indicated that, at that time, BNL held about \$720 million in assigned guarantees.

I would note, Mr. Chairman, that BNL took no further assignments of CCC-guaranteed obligations after August 1989. Because of the uncertainties surrounding the BNL investigation, representatives of BNL agreed with Department officials in October 1989 not to accept any further assignments and, in fact, never have done so. Thus, BNL took no assignments in connection with the guarantees allocated for FY 1990.

Several days after that meeting, about September 8, 1989, USDA's wood products division received written complaint from two exporters of wood products that Iraqi purchasers were allegedly pressuring exporters to provide additional services or goods at no charge to the purchaser. These allegations concerning "after-sales services" were promptly related to USDA's OIG which was working with the U.S. Attorney in Atlanta.

We subsequently made inquiries with the OIG about the BNL investigation, and were informed that OIG investigators working on the case in Atlanta were operating under grand jury rules and

that the investigation was at a very preliminary stage. However, we were told that an investigator from Atlanta would come to Washington in early October and would provide a briefing on developments there.

By the end of September, USDA had completed its preparation for the overall FY 1990 GSM program. This involved a process by which CCC developed a list of participant countries based on information obtained through the trade, from attaches of the Foreign Agricultural Service (FAS) posted abroad, and from our trading partners interested in the program. Using country-risk analysis, market information, and USDA assessment of long term market potential, CCC allocated available guarantees for the fiscal year among specified participant countries and established commodity-specific lines of credit guarantees. In September 1989, CCC contemplated an allocation of credit guarantees for FY 1990 in connection with sales to Iraq at the \$1 billion level.

On October 3, 1989, USDA made a presentation at a staff level meeting of the National Advisory Council on International Monetary and Financial Policies (NAC) recommending the \$1 billion allocation. USDA is not a NAC member, but USDA representatives regularly attend NAC meetings to discuss proposed export initiatives under our export credit guarantee programs (GSM-102 and GSM-103), and our foreign concessional sales programs under Title I of Public Law 480.

The NAC is a seven-member interagency review group chaired by the Department of the Treasury. Other members include the State Department, the Commerce Department, the Federal Reserve, the Office of the U.S. Trade Representative, the Export-Import Bank, and the Agency for International Development. As the name implies, the NAC is an advisory group, and its review and recommendations are not binding on USDA's decision making. Nevertheless, we take NAC advice very seriously and consider the NAC process to be an important and complementary process to our own internal analyses.

At the October 3, 1989 meeting, USDA's proposal to continue the program allocation in connection with sales to Iraq program at the \$1 billion level met with opposition from other agencies, including the Treasury Department, which suggested a \$400 million level. USDA took this under advisement and did not announce any program allocation in connection with sales to Iraq pending further consultation. However, it was USDA's view at that time, based on our own market development and risk assessments, that an overall \$1 billion allocation for Iraq was merited.

Taking into account the input from the NAC, and the risk exposure advantages to CCC of tranching any additional allocation, we subsequently made an initial offer to Iraq of an allocation of \$400 million. Iraq rejected this offer.

On October 5, Mr. Art Wade, an investigator with the Atlanta office of USDA's Office of the Inspector General, arrived in Washington. Mr. Wade met first with CCC program officials, and subsequently with me, to provide some information about the nature of the investigation in Atlanta. Mr. Wade was constrained by grand jury rules from disclosing particulars of the Atlanta investigation, but confirmed that the investigation centered around an alleged "grey book" loan scheme perpetrated by former BNL-Atlanta officials. Mr. Wade told USDA officials that the investigation was at a very early stage and that only preliminary evidence had been developed. He indicated that the investigation might expand to other issues, including possible BNL loans to Iraq for military supplies, the possibility of bribes to Iraqi officials, and the possibility, in the case of agricultural sales, that shipments might have been diverted to other countries and sold or bartered for other goods. When asked about the diversion issue, Mr. Wade indicated that, although there was no specific evidence to support this suggestion of "diversion," it was an area that the investigation would explore. I would note, Mr. Chairman, that to our knowledge, after more than two and a half years of intensive investigation in the BNL matter there has been no hard evidence to date of diversion of U.S. commodities or of any linking of CCC sales to military goods or supplies. When specifically asked whether he had any information indicating that USDA should not proceed to extend FY 1990 credit guarantees in connection with sales to Iraq, Mr. Wade said "no."

These initial conversations with Mr. Wade suggested a number of potential theories that might be investigated but revealed that no evidence had been developed to support any of these theories that might be investigated. It was this lack of clarity that caused me to institute our own inquiry into the situation, a review which involved several stages and that took several months to complete and which eventually resulted in the publication of USDA's report on May 21, 1990.

Initially, I decided that we needed to know more about the nature of the investigation so that I could have a basis to determine the level at which to extend further export credit guarantees in connection with sales to Iraq. I want to be clear with you, Mr. Chairman, about what the administrative review was intended to accomplish. Our purpose in pursuing this inquiry was to determine whether there was any evidence to suggest involvement by Iraq or Iraqi officials in program violations that would alter our judgment about continuation of the availability of export credit guarantees in connection with the sale of U.S. agricultural commodities to Iraq. It was not a criminal investigation. The process of criminal investigation and potential prosecution was already underway in Atlanta and was being conducted by the United States Attorney and USDA's Office of the Inspector General, agencies with jurisdiction over criminal investigation armed with the attendant authority to issue subpoenas and to compel testimony before the grand jury.

Our access to information was much more limited and our goal was much more specific. I also want to point out Mr. Chairman that our review was an evolving process and that, as we proceeded, we were constantly in touch with our OIG.

The situation we faced at that point is easy to describe. We had arrived at the beginning of the new fiscal year and had been requested by the Iraqis to continue extending GSM guarantees at the \$1 billion level which had been in effect in each of the prior two fiscal years. Indeed, as have you pointed out, there was a strong expression of support for such a program, both from members of Congress and from various agricultural sectors. We did not want to abandon a \$1 billion market that was important to the U.S. farmers and exporters. At the same time, USDA would not continue the program if there were program violations.

After the meeting with Mr. Wade, I asked Larry McElvain, the director of FAS, CCC Operations Division, and Kevin Brosch of our General Counsel's office to go to Atlanta to pursue the matter further. Mr. McElvain and Mr. Brosch travelled to Atlanta on October 11-12, 1989 and met with Gale McKenzie, the Assistant United States Attorney in charge of the BNL investigation, as well as with three investigators from USDA/OIG-Atlanta who were working with her. They also had an opportunity to visit the bank

and to have a preliminary look at some of the bank records which concerned CCC-guaranteed transactions.

When they returned from Atlanta, I met with Mr. McElvain and Mr. Brosch and they reported to me that, insofar as CCC transactions were concerned, it appeared that the BNL investigation was going to focus on several issues: the alleged high prices of U.S. sales to Iraq; the possibility of diversion of goods; the possibility that U.S. exporters might have provided after-sales services to Iraq in connection with CCC-guaranteed sales; and the possibility that such sales might have been connected in some way with the provision of military supplies.

Mr. McElvain and Mr. Brosch also reported that the investigation into these issues appeared, at the time, to be based on hypotheses of the investigators rather than on any concrete evidence. For example, Mr. McElvain and Mr. Brosch had asked what evidence had been adduced which suggested "abnormally high prices." The investigators were able to point to only one sale of vegetable oil. When that sale was reviewed, it appeared that the sale was not of bulk vegetable oil but rather of refined and tinned vegetable oil, and that the higher than usual price was associated with the substantial value added by the refining, tinning, and labeling process, as well as with the higher shipping costs. They also asked what evidence was available with respect to diversion of goods, and were told that the

investigation had uncovered no evidence of diversion or of any connection of CCC-guaranteed sales with military supplies thus far, but that these theories would be explored.

During that meeting, Mr. Brosch also reported that, although the investigators had suggested the possibility of higher than usual commodity prices, they did not appear to have made comparisons with any standard commodity price series or have used any market price information. He suggested that we obtain standard price series from USDA's commodity divisions and return to Atlanta to do a more thorough screening of the bank records. I instructed him to do so.

On October 18-19, Mr. Brosch returned to Atlanta with another USDA attorney and they spent two days reviewing files. When he returned to Washington, Mr. Brosch reported that he had been able to find ships' bills of lading in the files associated with the various GSM-guaranteed transactions; apparently, the bank kept separate files for the financing documents and the shipping documents, and the investigators had previously only reviewed the financing files. He also reported that he had been able to do a preliminary review of the high price issue, and that several prices reviewed, appeared to be \$10-\$20 per ton more than would have been expected based on market price data for the period. The files revealed nothing with respect to the after-sales services or military issues.

Mr. Brosch also reported that the somewhat higher prices that he had observed were connected with sales transactions by a U.S.-based exporter known as Entrade International Ltd. (Entrade). Mr. Brosch reported that Entrade appeared to be a principal focus of the investigation, and that he had been told that a former executive assistant within BNL-Atlanta had, a year or so earlier, moved to New York to take an executive position within Entrade. I directed Mr. Brosch to do a further review of Entrade transactions. Mr. Brosch contacted attorneys for Entrade in New York to make arrangements to go to New York and review the company's records. This had to be coordinated with the office of the U.S. Attorney in Atlanta because Entrade was also the subject of a grand jury subpoena. Mr. Brosch formally requested access to Entrade's records on October 23, 1989, in a letter to Entrade's lawyers. However, because the grand jury investigation took precedence, Mr. Brosch was unable to review those records until late November.

Our early hope was that the BNL investigation in Atlanta would proceed quickly and that the uncertainties and hypotheses would be quickly resolved. During their first meeting in Atlanta, Mr. Brosch and Mr. McElvain were told that the United States Attorney hoped to have initial indictments returned by the grand jury by November 15, 1989. As you know, Mr. Chairman, that did not happen. The investigation, apparently much more complex than initially anticipated, did not result in any indictments

until February 28, 1991, approximately sixteen months later. And, as you are no doubt aware from your own reading of the indictments, Mr. Chairman, even today there has been no formal allegation or apparent evidence adduced with respect to many of the rumors which began circulating in October 1989. For example, the indictments in the BNL investigation contain no allegations of diversion of commodities nor any allegations that CCC-guaranteed sales were in any way connected with the provision military supplies.

On November 3, 1989, the NAC staff group met again to consider a modification of USDA's October 3 proposal. Rather than proposing to announce a \$1 billion allocation of export credit guarantees, we proposed a two-tranche allocation for FY 1990, with an initial \$500 million to be announced immediately, and a second \$500 million tranche to be held in reserve, with its release contingent upon a positive resolution of the BNL investigation in Atlanta. Because several agencies requested that the issue be raised at a higher policy level, this proposal was made again at November 8 in a NAC Deputies Meeting, at which time other agencies indicated they could support the proposal.

I believed then, and I continue to believe today, that this decision was both cautious and prudent for several reasons. First, as I have discussed, we simply did not have any information that substantiated any of the rumored allegations out

of the Atlanta investigation. We wanted to be certain, however, that there wasn't evidence being developed in the Atlanta investigation which we simply did not know about because of grand jury constraints. We met on several occasions with representatives of the OIG about this matter and asked whether they would recommend against our proceeding. We were always told "no." On November 8, 1989, prior to the NAC meeting of that day, Inspector General Leon Snead provided a memorandum to the Deputy Secretary in which he stated:

On Friday we were contacted by OMB concerning our investigation of the Banca Nazionale Del Lavoro [sic] and the Department's impending decision to extend credit guarantees to Iraq. OMB expressed concern over giving credit guarantees to Iraq while this investigation is in progress. We informed them that we have no evidence to date that would lead us to recommend that the Department should not extend the guarantees.

In addition, we reasonably expected that the extension of \$500 million in credit guarantees in connection with sales to Iraq should not result in any additional financial exposure on the part of the United States and, in fact would result in a net improvement in CCC's exposure. As I mentioned earlier, Mr. Chairman, CCC had extended credit guarantees in connection with sales to Iraq beginning in 1983, and had allocated \$1 billion in credit guarantees for sales to Iraq in FY 1988 and 1989. Iraq's scheduled repayments of previously undertaken obligations during FY 1990 was approximately \$900 million. The extension of \$500

million in new credit guarantees would, therefore, be made during the period in which Iraq would be repaying substantially more than that amount.

And, that is precisely what happened. Up until the time that Iraq invaded Kuwait on August 1, 1990, resulting in a collapse of its diplomatic and financial relationships with the West, Iraq paid back CCC guaranteed obligations totaling more than \$847 million. Of the \$500 million in guarantees, only \$392 million had become effective as of August 2, 1990. As a result, CCC's net exposure in connection with Iraqi-related guarantees declined by approximately \$455 million during fiscal year 1990. Mr. Chairman, this is an important point that has not been reported properly. We specifically took this likely reduction in net exposure into account when we made our determination to propose the initial \$500 million tranche.

On November 11-13, FAS General Sales Manager Paul Dickerson led a USDA team to Iraq for consultations. Mr. Dickerson reported to me that the Iraqis were extremely upset with the USDA proposal, but we refused to do any more until there was better information. Ultimately, the parties were never able to reach agreement on anything more than the first \$500 million tranche. On November 15, USDA formally announced the availability of that \$500 million tranche of credit guarantees. I should repeat here, Mr. Chairman, that BNL did not take assignment of any of these

FY 1990 guarantees.

We understood, however, that eventually there would be renewed pressure for a second \$500 million tranche. Indications that we were receiving from Atlanta were that the investigation was going more slowly than anticipated and that there might not be indictments by the time Iraq requested the additional line of credit guarantees.

Beginning in the last week of November and concluding in the week before Christmas, Mr. Brosch made several trips to New York to review Entrade's records. In total, he and another USDA attorney spent twelve staff-days on this project. Mr. Brosch completed a preliminary analysis of his findings in early January and reported to me.

The initial reason that we focused at that point on Entrade, as I mentioned previously, was that Entrade appeared to be a principal focus of the BNL investigation. However, Entrade also provided us with a unique opportunity to get a better picture of the high prices issue. Entrade was what is known in the trade as a "table-topper." That means that Entrade was a small exporter that held no inventory of its own, did not warehouse or hold commodities, and dealt only in paper. It engaged in what we call "back-to-back" transactions -- that is, Entrade bought a specific amount of a commodity from a supplier in the United States on the

same day, or within several days, of selling that same supply to Iraq. Thus, we could directly compare Entrade's sale price and its acquisition costs for each transaction with Iraq. This type of comparison is not possible with larger commodity traders which are constantly buying and selling commodities and whose acquisition costs cannot directly be linked to any particular sale.

Entrade had made approximately fifty-two GSM-guaranteed sales to Iraq during the period 1985-1989. Mr. Brosch was able to locate and review company records regarding those sales. His analysis indicated that the approximate profits obtained by Entrade in connection with GSM-guaranteed sales of wheat to Iraq were within a range which would be considered typical of the marketplace -- approximately \$2-4 per ton. However, Entrade's approximate profits during one period between October 1985 and February 1987 in connection with sales of other commodities were much higher than expected -- for corn, \$16-20 per ton; for rice, \$7-20 per ton; and for sugar, \$15-40 per ton. In addition, Mr. Brosch found several instances in which there had been a shift, after the time of sale, of the allocation of price between commodity and freight, indicating that Entrade had obtained a CCC guarantee for a value higher than program regulations would allow. Telex traffic between Iraq and Entrade indicated that the Iraqi purchasing authorities not only knew of this shift, but

were complicitous in it. After 1987, however, no such high profit transactions appear to have occurred.

Although we initially suspected that the abnormally high prices obtained by Entrade for its sales to Iraq of sugar, rice, and corn might have indicated some form of sweetheart deal between Entrade and the Iraqi purchasing authorities, further analysis by Mr. Brosch suggested otherwise. CCC's records of sales prices registered by other exporters of the same commodities to Iraq during the same period that the prices obtained by Entrade did not differ significantly from the prices obtained by those other exporters.

Based upon the information we had been able to gather at that time, I decided not to proceed with any additional credit guarantees for Iraq until I was able to obtain some explanation for the high prices and for the apparent registration of several sales at values higher than regulations permitted. I told officials in FAS to convey this to Iraq's representatives in Washington and to suggest to them that we were interested in sending a team to Baghdad to conduct a further review of these matters.

In that month we also received a complaint from an exporter that the Iraqi government was pressuring the exporter to pay the costs associated with a stamp tax. That tax, which involved a

relatively small payment, is an internal Iraqi tax required upon issuance of the letter of credit. Our principal concern was that such an expense should not be included in the coverage of the guarantee. We promptly dispatched a cable to Iraq to object to this practice.

During late January and early February, we received increased industry and Congressional pressures to release the second tranche of credit guarantees, and in March I learned that the Iraqi embassy was orchestrating a pressure campaign on Capitol Hill for release of additional guarantees. On March 27, 1990, I met with Iraq's ambassador, Mr. Al-Mashat, in my office and told him that such pressure tactics would not work, and renewed my demand for the visit by our administrative review team to Baghdad.

Initially, the Iraqis rejected this demand. Ultimately, however, when it became apparent that we meant what we said, the Iraqi government agreed to the review visit. The trip occurred during the week of April 16-23, 1990. Mr. Brosch, Mr. McElvain, and Mr. Dickerson, FAS' General Sales Manager, represented USDA on this visit. They were accompanied by a lawyer from the State Department's Office of the Legal Adviser. During their visit, USDA officials asked to review the files of a number of transactions and were provided with documents underlying Iraq's tendering, bid, and acquisition process as well as documents

relating to their overland transportation of commodities from Aqaba, Jordan, to Iraq.

Upon its return, the administrative review team gave me a preliminary report. They reported that the high price levels obtained by sellers into the Iraqi market appeared to be the result of Iraq's highly inefficient and surprisingly unsophisticated tendering process. Documents in the Iraqi files indicated that Iraq appeared to have made little attempt to attract bidders to the market and that its practices of requiring local agents and attempting to renegotiate price after the close of the bid process probably discouraged companies from participation. As a result, Iraq apparently received surprisingly few bids in response to its tenders. The prices that we had seen, although significantly higher than representative market prices, nonetheless appeared to represent the low bids in this poorly conceived tendering process.

Other conclusions reached by the administrative review team were more problematic. The team was able to confirm that, on several occasions, an Iraqi purchaser had agreed to reallocate portions of a sales price between the commodity value (which could be covered under the regulations) and the freight value (which could not be covered for these particular transactions), resulting in a higher value of the shipment being guaranteed by CCC than was permissible under the regulations. Iraq had no

adequate explanation for its participation in this scheme, and had aided Entrade by causing letters of credit to be issued to support this reallocation.

In addition, although Iraq had previously acknowledged that it had requested after-sales services from exporters, it refused to provide the administrative review team with a comprehensive list of instances in which such after-sales services were provided. Although Iraq pledged not to request either after-sales services or the payment of stamp taxes in the future, the administrative review team reported to me that the Iraqi government had been uncooperative in identifying past instances where these practices may have occurred.

Finally, the administrative review team reported it had been unable to find evidence to indicate that commodities destined for Iraq had been diverted. As you are no doubt aware, Mr. Chairman, during the 1980s, Iraq was engaged in an eight-year war with Iran and had no ocean port through which it could receive shipments. Commodities shipped from the United States were landed at one of four ports (Iskenderun and Mersin, Turkey; Aqaba, Jordan; and Yenbu, Saudi Arabia) and carried overland on 25 or 50 ton trucks through the desert into Iraq. Thus, the transportation of a boatload of wheat -- perhaps, 25,000 metric tons -- required overland transportation to Iraq by means of 500 to 1,000

truckloads. During this period, Iraq was receiving literally hundreds of such shiploads.

The administrative review team asked to review shipment documents and was shown examples of individual truck manifests, entry registers, and warehouseman's logs. For a given shipment of commodities, there were hundreds of individual manifests, and dozens of registers and logs, all recorded in Arabic. The team concluded that it simply did not have the resources or ability to conduct the extensive translation and audit of the thousands of documents that would be involved.

I instructed the team to prepare a report and we met again on May 7, 1990. At that meeting, I determined that I would make a public announcement disclosing the results of the administrative review and my determination not to proceed on any further credit guarantees in connection with sales to Iraq until the conclusion of the BNL investigation. I instructed Mr. Brosch to complete the report and to prepare a memorandum for my signature to Inspector General Snead asking his office to "institute an investigation to determine whether there have been any program abuses and violations of GSM regulations" with regard to Iraq. Our proposed report (and announcement) was provided to the United States Attorney in Atlanta and to USDA's Office of the Inspector General and was circulated within the administration to

other interested agencies. The final report was released on May 21, 1990.

In your statement before the House on February 4, 1991, Mr. Chairman, you made a concise and accurate statement of the results of the administrative review on which I cannot improve. You stated:

CCC investigated several irregularities which included:

First, unusually high prices obtained by exporters in connection with 102 sales to Iraq involving BNL;

Second, shifting of some freight and freight financing costs to CCC, thus lowering the amount of guarantee authority under the 102 programs that could be used by others;

Third, utilization of after-sales services in violation of CCC regulations;

Fourth, Iraq requiring exporters to pay a stamp tax, a policy that is supposed to be prohibited under the 102 Program.

Upon concluding its review, CCC asked USDA's Office of the Inspector General to conduct a thorough investigation of all CCC-guaranteed sales. CCC will take the appropriate administrative or civil action in the event that the OIG report discloses wrongful violation of program requirements. The CCC is also waiting for the results of the Justice Department's ongoing criminal investigation of BNL when more information will become available.

What do we now know as a result of the investigations into the BNL matter that have continued since we concluded our administrative review, Mr. Chairman? The answer is little more than we knew in May 1990 when I decided to shut Iraqi purchases

off from any further credit guarantees (although after November 1989, no additional line of credit guarantees was made available). The grand jury in Atlanta issued a 347 count indictment on February 28, 1991. That indictment contains twenty-nine counts which are styled "Fraud on USDA." A careful reading of the indictment, however, reveals that almost every count involves an allegation of wire fraud or mail fraud as part of a scheme by BNL officials to issue letters of credit in excess of the Atlanta branch's permitted lending limits. The indictment contains no allegations relating to diversion of commodities, after-sales services, or military aid. There is one allegation relating to unusually high commodity prices, and that allegation, Mr. Chairman, appears to be related to a corn shipment that was initially identified as part of our administrative review.

Indeed, only a week ago, on May 13, the U.S. Attorney presented to the court a plea agreement concerning Entrade. That plea describes transfers of money not to Iraqis but rather to the former manager of BNL's Atlanta agency, his father, and the Turk in charge of Entrade. To the extent there was an attempt to defraud CCC by improperly increasing the guaranteed commodity value in one corn transaction, the inflated value was paid by the purchaser. Consequently, CCC has no loss on this transaction. In addition, Entrade has represented that it did not sell or export any missiles or other military goods and that, to its knowledge, all CCC guaranteed exports were agricultural products.

As I mentioned, I sent a memorandum on May 8, 1990, to our Inspector General asking for a thorough investigation of the GSM program with Iraq. Subsequently, the OIG conducted an audit of more than \$879 million of GSM-guaranteed sales and found after-sales services of approximately \$379,000 -- approximately one-two hundredth of one percent of the total sales value. In addition, another audit of CCC-guaranteed tobacco sales has revealed that seven exporters paid after-sales services of \$1.5 million to Iraq. The OIG report contains no evidence of diversion of goods. The OIG report also does not show any connection between GSM-guaranteed sales and military supplies to Iraq.

The GSM program was also the subject of an investigation by the General Accounting Office. The GAO has already testified before Congress that it has no evidence to support allegations of diversions or of any connection between GSM guarantees and provision of military supplies to Iraq. I understand that the GAO was engaged in a further investigation of the after-sales services issue, but has halted its investigation because it hasn't found anything.

On this note, Mr. Chairman, I would like to conclude my formal testimony. I hope that today we have made it clear what decisions were involved in the granting of FY 1990 credit guarantees to Iraq and what led us to terminate that program in May 1990. We did not treat the situation as "business as usual."

Our approach was instead cautious and prudent. We were frequently in contact with our OIG, and through that office with the U.S. Attorney's office in Atlanta, regarding whether they had evidence to suggest that the program should not proceed. We initiated our own administrative review so that we did not have to await the outcome of the Atlanta investigation. I hope that we have explained why we instituted our administrative review, what that review was intended to accomplish, and what it did accomplish. We also implemented a number of program changes to improve the overall operation of the program. As you have pointed out, Mr. Chairman, "In the past several years, Congress and USDA have made changes to improve the operation of the CCC program." Mr. Chairman, we are continually working to improve the operation of all of our programs and welcome input from Congress and others. Finally, Mr. Chairman, I hope that you and other members of the Committee appreciate that our approach enabled us to sell \$392 million in U.S. agricultural commodities while the net exposure of CCC declined by more than \$450 million during FY 1990.

I remain convinced, Mr. Chairman, that the decisions taken by the Department of Agriculture were prudent, responsible and sensible. I will be glad to respond to any questions that you or members of the Committee may have.

PANEL NO. 2

Statement by
Ann M. Veneman
Deputy Secretary
U.S. Department of Agriculture
Before the
House Committee on Banking, Finance and Urban Affairs
May 21, 1992

Mr. Chairman and members of the Committee: I am here today at the Committee's request to respond to questions regarding the extension of credit guarantees in connection with sales of U.S. agricultural commodities to Iraq during Fiscal Year (FY) 1990 and the Department's administrative review of the export credit guarantee programs (GSM-102 and GSM-103) with respect to sales to Iraq.

I served as Deputy Under Secretary of Agriculture for International Affairs and Commodity Programs from June 1989 to June 1991 working directly for Under Secretary Richard Crowder. As Deputy Under Secretary in the international affairs area, I regularly attended meetings with Under Secretary Crowder and staff of the Foreign Agricultural Service (FAS) in which policy decisions regarding USDA's various export programs and international issues were discussed.

During the fall of 1989, I attended several meetings within the Department during which the topic of GSM allocations in connection with sales to Iraq for FY 1990 was discussed. My role was to provide support and policy input to Under Secretary Crowder. I recall that prior to the beginning of FY 1990, USDA

concluded that approximately \$1 billion in export credit guarantees should be made available in connection with sales to Iraq and made initial proposals for that amount at the staff level of the National Advisory Council on International Monetary and Financial Policies (NAC). I also recall that in October 1989, after USDA had learned of allegations that might arise out of the investigation of the Atlanta agency of the Banca Nazionale del Lavoro (BNL), USDA decided to alter its proposal to provide that credit guarantees should be made available in two tranches, with an initial allocation of \$500 million and an additional \$500 million contingent upon the results of the BNL investigation.

I also attended a number of meetings within the Department concerning USDA's internal inquiry with respect to issues that had been raised in the BNL investigation -- an inquiry that concluded on May 21, 1990, when Under Secretary Crowder made public USDA's report of its administrative review and after which it was announced that there would be no additional credit guarantees made available in connection with sales to Iraq. The work on the administrative review was conducted primarily by Kevin Brosch, an attorney from USDA's Office of the General Counsel, acting at the direction of Under Secretary Crowder. I attended several meetings within the Department in which Mr. Brosch reported on various phases of that inquiry. We were also briefed on a regular basis about the progress of the BNL

investigations by Mr. Leon Snead, the Inspector General, and members of his staff.

In February, 1990, I was asked to attend a NAC staff level meeting at which USDA had been requested to brief the interagency group on the status of our administrative review and on our understanding of the status of the BNL investigation in Atlanta. I was accompanied by Mr. Raul, USDA's General Counsel, and Mr. Brosch, who responded to questions from the other agencies in attendance. I also attended the May 29, 1990 NAC Deputies Meeting, which followed on the Department's release, on May 21, of its administrative review, at which meeting it was discussed that no additional line of credit guarantees would be made available.

That concludes my statement. I would be happy to respond to any questions that you or the members of the Committee may have.

Submitted by Under Secretary Crowder at the request of
Rep. Charles Luken,



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

JUL 17 1992

Honorable Charles J. Luken
U.S. House of Representatives
1107 Longworth House Office Building
Washington, D.C. 20515-3501

Dear Congressman Luken:

I welcomed the opportunity to appear as a witness before the House Banking, Finance and Urban Affairs Committee on May 21, and was pleased to have the opportunity to answer your questions regarding Iraq's participation in the Department of Agriculture's (USDA) export credit guarantee program.

As we agreed, I am responding to your question with respect to timing of USDA's development of a \$1 billion fiscal year 1990 GSM-102 export credit guarantee program for Iraq. In an effort to develop programs prior to the beginning of each fiscal year, USDA initiates early programming during the summer before the beginning of a new fiscal year. This early programming process is geared toward maximizing global market opportunities. Factors considered during early programming include historical need and previous program use, our estimate of what program level is required to maintain and expand market share for U.S. agricultural commodities, creditworthiness, and individual country requests for coverage.

Between fiscal years 1986 and 1989 the amount of credit guarantees made available to Iraq increased steadily from \$500 million to \$1.05 billion. On July 11, 1989, we reviewed global market development opportunities with respect to fiscal year 1990 export credit guarantee programs. As a result of this review, we agreed internally to propose that \$1 billion in credit guarantees be made available in connection with sales to Iraq (see enclosed work sheet). In August 1989, the Government of Iraq requested \$1.2 billion in GSM-102 coverage for fiscal year 1990 (see enclosed cable). In the enclosed August 10, 1989 letter, USDA proposed to the National Advisory Council on International Monetary and Financial Policies (NAC) a \$1 billion level during fiscal year 1990 in connection with sales to Iraq. On October 3, 1989, NAC reviewed this proposal and approved \$400 million.



The parallel development of Mexico's fiscal year 1990 program is a useful comparison. Mexico's use of credit guarantees made available during fiscal years 1986 through 1989

Honorable Charles J. Luken

2

increased from \$700 million to \$1.14 billion. In July 1989, the Government of Mexico formally requested \$1.9 billion in coverage for fiscal year 1990. On July 11, 1989, we agreed internally to propose a level of \$1.225 billion for Mexico for fiscal year 1990. On August 1, 1989, MAC reviewed our \$1.225 billion proposal and approved the level as proposed. This was later increased twice by \$150 million for a total of \$1.525 billion.

Sincerely,


 Richard T. Crowder
Under Secretary for International
Affairs and Commodity

Country/Commodity	CLAP	EC	CONSENSUS*	CLAP	EC	CONSENSUS*	FREIGHT	COMMENTS
Total (Indonesia)	\$0	\$0	\$0*	\$2,000	\$2,000	\$0*		
IRAN								
Corley Malt	\$3,400	\$3,000	*			*	*Can our	*EC proposes no 103 for:
Conc. (Protein)	\$50,000	\$50,000	*			*	*freight	*Iraq, especially for:
Cotton	\$36,500	\$36,500	*			*	*commitment	*tobacco.
Dairy Products	\$20,000	\$20,000	*			*	*to Iraq be	
Eggs	\$15,000	\$15,000	*	\$5,000	\$0	*	*scaled back?	*70-day terms for
Feed Grains	\$70,000	\$100,000	*			*	*leather and hides &	
Leather	\$15,000	\$10,000	*			*	*EC proposes	*skins.
Meal	\$51,000	\$75,000	*			*	*initial	
Planting Seeds	\$2,500	\$7,500	*			*	*position of	*1-year terms for wood:
Poultry Meat	\$15,000	\$0	*			*	*no freight*	*panel products.
Pulses	\$27,500	\$27,500	*			*	*falling	
Rice	\$168,000	\$168,000	*			*	*back to a	*Very high political
Tallow	\$14,000	\$14,000	*			*	*portion if	*risk.
Tobacco	\$47,500	\$30,000	*	\$50,000	\$0	*	*need be.	
Veg. Oils	\$180,000	\$180,000	*			*		
Wheat	\$33,750	\$34,000	*			*		
Wheat Flour	\$118,000	\$120,000	*	\$25,000	\$0	*		
Food Products, Solid	\$30,000	\$15,000	*			*		
Wool	\$94,500	\$94,500	*			*		
Undesignated								
Total (Iraq)	\$812,150	\$1,000,000	\$0*	\$80,000	\$0	\$0*		
ISRAEL								
Feed Grains			*			*		
Total (Israel)	\$0	\$0	\$0*	\$0	\$0	\$0*		

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FOR GSM DICKERSON; MCELVAIN & KUMKEL, EXPORT CREDITS;
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E.O. 12356: N/A

TAGS: N/A

SUBJECT: IRAQ FY 1989 AND FY 1990 GSM CREDIT NEEDS

1. ATU ON AUGUST 29 MET WITH MR. SHAW AGHA FROM MINISTRY OF TRADE'S OFFICE OF FOREIGN ECONOMIC RELATIONS TO DISCUSS USDA GSM MATTERS. FAROUK AL-OBAYDI, WALID YOUSIF (MINISTRY OF TRADE) AND ZUHAI DAUD (GRAIN BOARD) ARE IN AUSTRALIA AND NEW ZEALAND FOR JOINT ECONOMIC MEETINGS.
2. MR. AGHA CONFIRMED IRAQI INTEREST TO HAVE A DELEGATION IN WASHINGTON DURING / 1ST WEEK OF OCTOBER TO DISCUSS FY 1990 CREDIT GUARANT E NEEDS. ATO SUGGESTED THAT OFFICIAL TALKS AT SDA BEGIN ON TUESDAY OCTOBER 3 AS PER PARASUK/GOLDENWAT DISCUSSION.
3. MR. AGHA PROVIDED ATO WITH AN OFFICIAL LETTER FROM THE MINISTER OF TRADE REQUESTING THAT SINCE FY 1989 GSM-102 PROGRAM ALLOCATIONS ALREADY HAVE BEEN UTILIZED, USDA ANNOUNCE AS SOON AS POSSIBLE 50 PERCENT OF THE ANTICIPATED FY 1990 PROGRA . REASON FOR EARLY ANNOUNCEMENT IS TO FULFILL CURRENT DOMESTIC PURCHASE REQUIREMENTS.
4. TO ATO QUESTION RE IRAQI FY 1990 EXPECTATIONS, MR. AGHA STATED 1.2 BILLION DOLLARS. ATO DID EXPLAIN THAT EVEN IF A PARTIAL FY 1990 PROGRAM WAS ANNOUNCED IN 8/PTEMBER, ACTUAL REGISTRATIONS WOULD BE IMPOSSIBLE UNTIL OCTOBER 1. ACCORDINGLY, ATO SUGGESTED THAT IRAQI OFFICIALS MIGHT PREFER THAT ANNOUNCEMENT BE MADE IN WASHINGTON IF TEAM IN FACT TRAVELS DURING FIRST WEEK OF OCTOBER . MATTER TO BE FINALIZED UPON FAROUK AL-OBAYDI'S RETURN TO BAGHDAD NEXT WEEK. RE SPECIFIC COMMODITIES TO BE INCLUDED IN ANY POSSIBLE EARLY ANNOUNCEMENT, MR. AGHA SUGGESTED WHEAT AND RICE WITH

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GSM
EC: FND
EF: PND
PL: PND
AC
LMS
GSM/Reddingt
TNS
POCAS
FND
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ERS

UNCLASSIFIED
10/10/03

OTHERS TO BE IDENTIFIED LATER.

5. IRAQI FOOD AND FEED GRAIN IMPOR REQUIREMENTS ARE DEFINITELY IN NEED OF AN ADDITIONAL 20.0 TO 30.0 MILLION DOLLARS IN SEPTEMBER. THE FY 1989 WHEAT AND RICE LINES ARE TOTALLY EXHAUSTED. THE 21.0 MILLION DOLLARS IN THE FEEDGRAINS LINE IS BEING DISPUTED BETWEEN THE MINISTRY OF TRADE FOR BARLEY AND THE MINISTRY OF AGRICULTURE FOR PROTEIN CONCENTRATES. AN EARLIER TENDER FOR BARLEY WAS NOT CONSUMMATED BECAUSE OF LACK OF GSN-102 FUNDS.

6. IN RESPONSE TO GRAIN & FEED SINDLAR AUGUST 25 TELE. THE GRAIN BOARD DID MAKE AN INQUIRY FOR EC BARLEY BUT PREFERS TO PURCHASE 100,000 TO 150,000 TONS FOR IMMEDIATE SHIPMENT FROM THE UNITED STATES. KEP IS NOT IN QUESTION ONLY THAT GSN-102 FUNDS BE MADE AVAILABLE. GRAIN BOARD ALSO IS INTERESTED TO PROCURE ANOTHER TWO OR THREE CARGOES (20 TO 30 MIL DOLS) IN SEPTEMBER FOR SHIPMENT IN NOVEMBER IF GSN-102 FUNDS CAN BE MADE AVAILABLE.

7. RE SPECIFIC FY 1989 REALLOCATIONS ATO WILL DETAIL FOLLOWING ANOTHER MEETING WITH HIS TRADE OFFICIALS.

8. ACTION REQUESTED: ATO RECOMMENDS THAT SOME 25.0 MILLION DOLLARS BE MADE AVAILABLE IMMEDIATELY TO FACILITATE PRIOR TO SEPTEMBER 30T ADDITIONAL PURCHASES OF EITHER BARLEY AND/OR WHEAT AND THE REGISTRATION OF ADDITIONAL QUANTITIES OF ALREADY PURCHASED PROTEIN CONCENTRATES WHICH WILL BE SHIPPED BY DECEMBER 31, 1989.

WILSON

MEMO

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JUN 12 1989

Mr. Allen E. Clapp
 National Advisory Council on International
 Monetary and Financial Policies
 Department of the Treasury
 Washington, D.C. 20229

Dear Mr. Clapp:

In early October 1989, USDA officials will meet with Iraqi Government representatives to discuss the Export Credit Guarantee Program (GSM-102) for sales of U.S. agriculture commodities to Iraq in fiscal year 1989. At the conclusion of these meetings we will promptly notify the NAC of the results of the discussions.

We plan to offer up to \$1,000.0 million in GSM-102. The allocations for specific commodities will result from consultations with the Iraqi team. Commodities likely to be discussed include: cotton, feed grains, hides and skins, leather, planting seeds, protein meal, protein concentrates, pulses, rice, tallow, vegetable oils, wheat, solid wood products (lumber and plywood), wood pulp, wool, breeder livestock, protein concentrates and undesignated.

The export credit guarantee programs (GSM-102/3) have played a significant role in establishing markets for a wide-range of U.S. agricultural commodities in Iraq. In fiscal year 1982, the year before the first GSM-102 program was announced, Iraq's agricultural imports from the United States totaled less than \$135 million. By fiscal year 1988, the sixth year of the program, imports of U.S. agricultural commodities had increased to approximately \$727 million. As of July 28, 1988, export sales totaling approximately \$910 million had been registered under the fiscal year 1989 program.

Iraq's payment record over the 7 years that Iraq has used GSM-102 credit guarantees has been good. To date, Iraq is current on its payments under the program, and Iraq has repaid in full all its obligations under the fiscal year 1983, 1984 and 1985 GSM-102 credit guarantee programs. Iraq has also paid more than two-thirds of its \$383.2 million fiscal year 1986 obligations (\$255.2 million) and more than one-third of its \$567.4 million fiscal year 1987 obligations (\$189.1 million). Exporters have registered \$200.5 million in sales under GSM-103 since the program began operating for Iraq in fiscal year 1986.

The level of GSM-102 being considered for fiscal year 1990 is comparable to that announced for fiscal year 1989. U.S. exporters are likely to face increased competition from alternative suppliers, and maintaining the current GSM-102 level is essential to preserving U.S. gains in the Iraqi market for agricultural commodities.

- 2 -

Accordingly, USDA proposes the following allocation of GSM-102 credit guarantees:

Amount: \$1,000.0 million for FY 1989

Purpose: For credit guarantees covering credit sales of U.S. agricultural commodities secured by foreign bank letters of credit.

Terms: Up to thirty-six (36) month terms, except as indicated below.

Guarantor: Rafidain Bank and/or other eligible banks.

Export Authorization Period: Through September 30, 1990.

Regarding commodity coverage, some commodities being considered for coverage lie outside Chapters 1-24--cotton, hides and skins, leather, solid wood products (lumber and wood panel products) and wood pulp. We are considering limiting coverage to 12 months for wood panel products, to 720 days for leather, and three years for all other commodities.

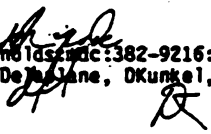
We request the views of the National Advisory Council on International Monetary and Financial Policies.

Sincerely,



Kerry E. Reynolds
Director
Program Development Division

FAS:EC:PDD:AME:JReynolds:mc:382-9216:8-10-89
cc: KReynolds, CDeJasane, DKunkel, Howard, Chwening Munn



Statement by
Lawrence T. McKlvin
Director, CCC Operations Division
Foreign Agricultural Service
U.S. Department of Agriculture
Before the
House Committee on Banking, Finance and Urban Affairs
May 21, 1992

Mr. Chairman, members of the Committee, I am here today to appear before you as a member of this panel. As this Committee has requested, I will describe my role relative to the decision to extend export credit guarantees in connection with sales of U.S. agricultural products to Iraq during fiscal year (FY) 1990. I will also describe my participation in the USDA administrative review of certain transactions under the Commodity Credit Corporation's (CCC) export credit guarantee programs (GSM-102 and GSM-103). This review was conducted as the result of allegations arising from the U.S. Attorney's investigation of lending activities by the Atlanta office of the Banca Nazionale del Lavoro (BNL).

I am the director of the (CCC) Operations Division in the Office of the General Sales Manager, Foreign Agricultural Service (FAS), U.S. Department of Agriculture. This was also the position I held during the 1989-1990 period.

In this capacity, Mr. Chairman, I am responsible for the day-to-day operation of the CCC credit guarantee programs. The availability of credit guarantees with respect to sales to any particular country is approved at the departmental level. The responsibilities of my division are primarily operational in nature.

Although I was not involved in the process of presenting the Department's proposals to the National Advisory Council on International Monetary and Financial Policies (NAC), I participated in a number of meetings in the late summer and fall of 1989 with the General Sales Manager and other FAS and USDA program specialists and officials in which the FY 1990 allocation of credit guarantees in connection with sales to Iraq was discussed. My presence at these meetings was based on my operational responsibilities for administering the credit guarantee programs.

My role was to provide information about the specific commodities Iraq was likely to purchase, Iraq's past repayment record, and similar operational issues. While I do not recall being asked to make a specific recommendation on an FY 1990 allocation, the information that I provided supported the initial decision to continue a commercial export sales program to Iraq at a level equivalent to that of the previous two fiscal years.

As Under Secretary Crowder pointed out in his statement, Iraq had maintained a solid repayment record to U.S. financial institutions since 1983 and had also become an important and diverse market for U.S. agricultural products by 1989. At the time, the enormous growth in this market was very important to U.S. agricultural exports following the sharp decline in our exports from FY 1981 to 1986.

I was also present in some of the consultations with Iraqi officials in Washington in early October 1989, regarding their request for FY 1990 credit guarantees. Later, in mid-November, I accompanied Mr. Paul Dickerson, the General Sales Manager, to Iraq for further consultations, in which Mr. Dickerson informed Iraqi officials of the USDA decision to proceed with \$500 million in credit guarantees, with a second tranche dependant upon the outcome of the ENL investigation. My role in both of these consultations with the Iraqis was to answer technical questions on operational details of the program, and not to make decisions or recommendations regarding the extension of credits or the size of the program.

With your permission, Mr. Chairman, I will now describe my role in the USDA administrative review. I refer this Committee to Under Secretary Crowder's statement concerning the briefing at USDA by Mr. Art Wade of the Atlanta Office of USDA's Office of the Inspector General, and Under Secretary Crowder's subsequent decision to send Mr. Kevin Brosch and me to Atlanta in mid-October to try to learn more about the BML investigation.

For the next few months after I returned, I was mainly occupied in operating the programs for which I am responsible, although I was present in a number of meetings involving discussions of USDA's continuing efforts to determine whether program violations involving Iraq had occurred.

In October through December of 1989, as a precautionary step, our offices issued several notices and warnings to all U.S. exporters participating in the GSM program. These notices reminded exporters of the provisions in the regulations regarding after-sales services, their responsibilities to maintain adequate records and provide access to these records, and the sanctions for false registrations and certifications. Our offices also notified exporters of a new policy, instituted by Under Secretary Crowder, requiring USDA price review of every transaction.

In April 1990, I accompanied Mr. Dickerson, Mr. Brosch and an attorney from the State Department to Iraq to examine Iraqi records. Again, in the interests of brevity, I will refer your attention to Under Secretary Crowder's statement, in which he outlines our findings.

Under Secretary Crowder decided not to grant any further credit guarantees for sales to Iraq until the conclusion of the ENL investigation, and to request a thorough investigation by the Inspector General into possible program abuses. I assisted in the preparation of the report on the USDA administrative review, which was released on May 21, 1990. That concludes my statement, Mr. Chairman. I will be glad to answer any questions.

Statement by
Alan Charles Raul
General Counsel
U.S. Department of Agriculture
before the
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives
May 21, 1992

Mr. Chairman and Members of the Committee, I am pleased to respond to the request of the Committee for testimony on issues related to the Department of Agriculture's decision, in November 1989, to extend credit guarantees in connection with the sale of U.S. agricultural commodities to Iraq during Fiscal Year (FY) 1990, and its administrative review of sales to Iraq.

In September 1989, my staff was advised about a criminal investigation of Banca Nazionale del Lavoro's (BNL) Atlanta agency involving allegedly fraudulent loans to Iraq. This was brought to my attention because BNL held approximately \$720 million in receivables assigned to it by U.S. agricultural exporters that had been guaranteed by the Commodity Credit Corporation (CCC) under its export credit guarantee programs (GSM-102 and GSM-103). I was later briefed on my staff's meetings with an investigator from USDA's Regional Office of the Inspector General in Atlanta regarding BNL. Mr. Kevin Brosch in my office was assigned to follow up on the BNL investigation in Atlanta. Specifically, we were interested in any evidence produced in the Atlanta investigation that could be relevant to

USDA's consideration of a FY 1990 GSM program for export sales to Iraq.

I attended numerous meetings regarding these matters and talked often with Under Secretary Crowder, Mr. Brosch, USDA Inspector General Leon Snead, and other USDA officials as well as my counterparts at other agencies. My role was to provide legal counsel to USDA policymakers and to make sure that we obtained accurate and relevant information about the BNL situation and that the information we received through our contacts with the Inspector General and his staff, the U.S. Attorney's Office, and through USDA's own administrative review was quickly and widely disseminated and evaluated. As part of our due diligence on this matter, we sought to share our information and concerns as widely as possible with, and to learn as much as we could from, other interested agencies. To this end, I exchanged information with officials of the Departments of the Treasury, State and Justice, the White House, the National Security Council, the Office of Management and Budget, and the Federal Reserve.

In late October 1989, because of concern and uncertainty over the allegations, the Department decided to restrict the GSM program for sales to Iraq. Instead of extending \$1 billion in guarantees, USDA proposed a two-tranche plan in which only \$500 million in guarantees would be made available up front. A second \$500 million tranche was contingent; it would be held back

pending the results of further investigations. Indeed, USDA went forward with even the first tranche only after inquiring of the Inspector General, whose investigators were working directly with the United States Attorney's investigation in Atlanta, whether they had evidence that would warrant not renewing the program. We were specifically advised, orally and in writing, that there was not any evidence that would warrant terminating the GSM program for exports to Iraq. This was not a question that could be taken lightly because of the possible impact on U.S. farmers and exporters, on the one hand, and the serious nature of the allegations, on the other.

The two-tranche proposal was presented at a Deputies' level meeting of the National Advisory Council on International Monetary and Financial Policies (NAC) on November 8, 1989, which I attended. After a discussion that weighed the possible risks as well as the benefits, the two-tranche proposal received inter-agency support. Additionally, through its attorneys, BNL had provided assurances that it would not accept any exporter's assignment of a CCC guarantee issued in this tranche.

USDA continued its inquiry into these matters after the November 8 NAC meeting, and I was kept generally informed. In January 1990, Mr. Brosch reported that his review of one exporter's records, Entrade International Ltd., indicated that Entrade had received unusually high prices from the exporter for

sales of sugar, rice and corn during the period October 1985 to February 1987.

It also appeared that Iraq had requested certain exporters to provide after sales services and to pay Iraqi stamp taxes. To the extent that exporters actually provided these payments or services, but did not deduct the value from the sales prices registered with CCC, the exporters violated GSM program requirements. (On May 13, 1992, Entrade pleaded guilty to a scheme to defraud BNL and the United States, involving and furthered by payments to BNL and Entrade employees and the making of false statements to CCC and other U.S. agencies.)

The high prices paid to Entrade seemed to mirror high prices paid by Iraq to other exporters during the same period. Because these high prices and Iraq's involvement were unexplained, USDA determined that a review of Iraq's practices should be pursued even before the results of the BNL criminal investigation would be available. Dr. Crowder and I agreed to try to arrange for a USDA team to visit Baghdad. I contacted the State Department's Legal Adviser to seek his assistance in arranging the face-to-face inquiries in Baghdad. To ensure that our proposed inquiries in Baghdad would not jeopardize the on-going criminal investigation in Atlanta, I also consulted with Justice Department officials and USDA's Inspector General.

On April 16-23, 1990, Mr. Brosch, Mr. McElvain, the Director of the CCC Operations Division of the Foreign Agricultural Service (FAS), and FAS General Sales Manager Paul Dickerson, accompanied by a State Department lawyer, traveled to Baghdad to make inquiries of the relevant Iraqi officials and to review Iraqi records.

After returning, the team prepared a report in which they identified a number of GSM program violations: the allocation of certain values between the price of the commodity and the price of freight, resulting in inflated registrations in several cases; the provision of after-sales services which appeared not to have been reported; and the failure to deduct from the registered sales value the amount of Iraqi stamp taxes paid. Based on these violations, USDA determined not to make -- and did not make -- any additional credit guarantees available subject to a full investigation to be completed by USDA's Office of the Inspector General, and the conclusion of the BNL criminal investigation in Atlanta.

Also during this time, I accompanied Dr. Crowder to brief the leadership of the House and Senate Agriculture Committees about the results of our administrative review. We advised them of USDA's intention not to extend any further credit guarantees. We also informed other agencies and circulated USDA's draft

administrative report. On May 21, we released the report to the public.

That concludes my statement, Mr. Chairman. I would be happy to respond to any questions you or the Committee may have.

Statement by
 Kevin J. Brosch
 Deputy Assistant General Counsel
 International Affairs & Commodity Programs
 Office of the General Counsel
 U.S. Department of Agriculture
 before the
 House Committee on Banking, Finance and Urban Affairs
 May 21, 1990

Mr. Chairman and members of the Committee: I am here today in response to the Committee's request for information regarding the decision by the Department of Agriculture in November 1989 to extend credit guarantees in connection with export sales of U.S. agricultural commodities to Iraq during Fiscal Year (FY) 1990, and with respect to the administrative review conducted between October 1989 and May 1990 of sales to Iraq facilitated through the export credit guarantee programs (GSM-102 and GSM-103) of the Commodity Credit Corporation (CCC).

In April 1989, I began serving as an attorney in the International Affairs and Commodity Programs Division of the USDA Office of the General Counsel after seven and a half years in private practice.

I had a very limited role in the decision to extend FY 1990 credit guarantees in connection with sales to Iraq. I did not participate in the formulation of USDA proposals nor in any of the consultations between USDA and representatives of Iraq. My involvement was to attend a meeting of the staff group of the

National Advisory Council on International Monetary and Financial Policies (NAC) on November 3, 1989. I was asked to attend in the event that other agencies asked questions regarding the investigation initiated in Atlanta in August 1989 by the United States Attorney for the Northern District of Georgia into an allegedly fraudulent loan scheme being conducted by officials of the Atlanta agency of Banca Nazionale del Lavoro (BNL). I was also asked to prepare a detailed memorandum of issues arising from the BNL investigation for interagency circulation prior to the NAC meetings in November 1989.

I was thoroughly involved, however, in the USDA inquiry into Iraq's participation in the GSM program which resulted in the publication on May 21, 1990 of USDA's report of its administrative review. I attended the initial meeting on September 6, 1989 between USDA and BNL officials in which BNL officials informed the Department of the investigation underway in Atlanta. I attended a number of meetings within the Department on this matter involving both program officials and representatives of USDA's Office of the Inspector General (OIG). On October 5, 1989, Mr. Larry McElvain, the director of the CCC Operations Division of the Foreign Agricultural Service (FAS), and I met with Mr. Art Wade, an investigator with USDA-OIG's Atlanta regional office and received a briefing about possible areas which the Atlanta investigation might explore. The details of that briefing are addressed in Under Secretary Crowder's testimony.

After the meeting with Mr. Wade, Under Secretary Crowder directed me to make additional inquiries into various issues relating to Iraq's participation in the GSM program. The purpose of this inquiry was to determine whether there was any evidence to suggest involvement by Iraq or Iraqi officials in program violations that would alter our judgment about continuation of a credit guarantee program for U.S. agricultural exports to Iraq. This administrative review was not a criminal investigation and, in fact, we had to take special care to insure that nothing we did interfered in any way with the criminal investigation being conducted in connection with the grand jury proceedings in Atlanta.

In conducting this inquiry, I initially traveled to Atlanta on two occasions in October 1989 to meet with the Assistant U.S. Attorney in charge of the BNL investigation and with officials of USDA-OIG's Atlanta regional office participating in that investigation. I also spent several days reviewing various bank records of past CCC-guaranteed transactions. Based on the initial information I gathered during October, I proceeded in November and December, 1989 to do a review of the records of Entrade International Ltd., a New York-based exporter that appeared to be a target of the Atlanta investigation. I also reviewed CCC records of other CCC-guaranteed transactions registered by other exporters, the prices of those transactions, and USDA records regarding relevant market prices.

In January 1990, I presented a preliminary analysis to Under Secretary Crowder which indicated that Entrade had received higher-than-expected prices for sales of sugar, rice and corn during the period October 1985 through February 1987. The preliminary report also noted potential problems in such areas as after-sales services and stamp tax payments.

During the week of April 16-23, 1990, again at Under Secretary Crowder's direction, I travelled to Baghdad to review Iraqi files with Mr. McElvain, Paul Dickerson, the FAS General Sales Manager, and a State Department lawyer. After returning, I wrote a report of the inquiry and presented it to Under Secretary Crowder. This report concluded that Iraq had been complicitous in several violations of GSM program requirements. Those findings, and the basis for them, are set forth in the administrative review report, which has been a matter of public record since May 21, 1990, when the report was released. Dr. Crowder ultimately decided not to extend further credit guarantees for sales to Iraq until the completion of the BNL investigation in Atlanta and a further investigation into Iraqi participation in the GSM program, which he requested the Office of the Inspector General to undertake.

That concludes my written statement, Mr. Chairman, and I am prepared to respond to any questions you or the Committee may have regarding these matters.

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

**STATEMENT OF LEON SNEAD
INSPECTOR GENERAL
U.S. DEPARTMENT OF AGRICULTURE**

**BEFORE A HEARING OF
THE HOUSE COMMITTEE ON
BANKING, FINANCE AND URBAN AFFAIRS**

**ON THE
FOREIGN AGRICULTURAL SERVICE'S ADMINISTRATION OF CERTAIN ASPECTS
OF THE GSM 102 AND 103 EXPORT CREDIT SALES PROGRAM TO IRAQ**

May 21, 1992



GOOD MORNING, MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE. I AM LEON SNEAD, INSPECTOR GENERAL OF THE DEPARTMENT OF AGRICULTURE. I AM PLEASED TO APPEAR BEFORE YOU TODAY TO DISCUSS OUR AUDIT AND INVESTIGATIVE ACTIVITIES RELATED TO CERTAIN ASPECTS OF USDA'S EXPORT CREDIT GUARANTEE PROGRAM.

IN PREPARING FOR THIS HEARING, YOU EXPRESSED INTEREST IN THREE AREAS, AND ASKED THAT I PROVIDE YOU WITH (1) A LISTING AND SUMMARY OF OUR AUDITS AND INVESTIGATIONS RELATED TO IRAQ, (2) AN OVERVIEW OF THE ABUSES UNCOVERED RELATED TO IRAQ, AND (3) AN OVERVIEW OF OUR INVESTIGATION OF THE BANCA NAZIONALE DEL LAVORO (BNL).

SINCE 1988, OIG HAS CONDUCTED FOUR AUDITS AND SEVERAL CRIMINAL INVESTIGATIONS RELATED TO THE EXPORT CREDIT GUARANTEE PROGRAM ADMINISTERED BY THE FOREIGN AGRICULTURAL SERVICE (FAS) AND THE COMMODITY CREDIT CORPORATION (CCC).

OUR REVIEWS, WHICH INCLUDED SALES TRANSACTIONS TO SEVERAL COUNTRIES INCLUDING IRAQ, IDENTIFIED FOUR SIGNIFICANT AREAS WHERE IMPROVEMENTS WERE NEEDED IN PROGRAM CONTROLS AND PROCEDURES. SPECIFICALLY, WE FOUND THAT:

- (1) COMMODITIES OF FOREIGN ORIGIN WERE SHIPPED UNDER THE PROGRAM,
- (2) EXPORTERS RECEIVED EXCESSIVE CREDIT GUARANTEES BY INFLATING SALES PRICES FOR GSM COMMODITIES, (3) AFTER SALES SERVICES PAYMENTS WERE MADE TO IRAQ, AND
- (4) CCC'S PROCESS FOR ASSESSING THE CREDIT-WORTHINESS OF FOREIGN BANKS NEEDED STRENGTHENING.

A SUMMARY OF OUR WORK IN THESE AREAS FOLLOWS:

AUDIT REPORT NO. 07099-21-HY: EXPORTS OF FOREIGN COMMODITIES
UNDER GSM 102/103

IN SEPTEMBER 1989, WE ISSUED AN AUDIT REPORT ENTITLED "EXPORTS OF FOREIGN COMMODITIES UNDER GSM 102/103." THE OBJECTIVE OF THE AUDIT WAS TO DETERMINE

WHETHER FAS' MANAGEMENT CONTROLS WERE ADEQUATE TO ENSURE THAT ONLY COMMODITIES OF U.S. DOMESTIC ORIGIN WERE INCLUDED IN EXPORTS GUARANTEED UNDER THE PROGRAM. WE ALSO REVIEWED THE REASONABLENESS OF SALES PRICES CHARGED BY EXPORTERS. OUR AUDIT INCLUDED A REVIEW OF TRANSACTIONS FOR FISCAL YEARS 1986 THROUGH 1988. FOR FY 1988, CREDIT GUARANTEES FOR EXPORTS TO IRAQ ACCOUNTED FOR APPROXIMATELY ONE-FIFTH OF THE \$5.2 BILLION PROGRAM.

OUR AUDIT DISCLOSED THAT FAS CONTROLS DID NOT PREVENT THE SALES OF FOREIGN ORIGIN COMMODITIES UNDER THE GSM 102/103 PROGRAMS. EXPORTERS HAD INCLUDED FOREIGN PRODUCT IN 5 OF THE 11 COMMODITIES REVIEWED: BEEF CATTLE, PLANTING SEEDS, SOFT DRINK CONCENTRATES, TOBACCO AND WOOD PULP. OUT OF THE \$1.1 BILLION OF GUARANTEED EXPORT SALES AUDITED FOR FY 1988, FAS HAD GUARANTEED LOANS OF \$169.2 MILLION FOR SALES THAT CONTAINED FOREIGN AGRICULTURAL COMMODITIES. MOST OF THESE LOANS (VALUED AT \$141 MILLION) WERE FOR TOBACCO SHIPMENTS WHICH CONTAINED FROM 25 TO 100 PERCENT FOREIGN TOBACCO.

WE ALSO NOTED IN OUR AUDIT THAT EXPORTERS' PROFITS APPEARED TO BE EXCESSIVE. FOR EXAMPLE, WE NOTED PROFIT MARGINS OF 28 PERCENT ON WOOD PULP, 50 PERCENT ON SUNFLOWER OIL, 77 PERCENT ON SOYBEAN OIL, AND 420 PERCENT ON SOFT DRINK CONCENTRATES. WE WERE UNABLE TO COMPARE THESE PROFIT MARGINS TO THE PROFIT MARGINS ON THE EXPORTERS' NON-GSM SALES BECAUSE THE EXPORTERS REFUSED US ACCESS TO RECORDS FOR THEIR COMMERCIAL TRANSACTIONS. HOWEVER, EXCESSIVE PROFITS EXPOSED CCC TO A HIGHER LEVEL OF RISK THAN NECESSARY IN THE CASE OF DEFAULT.

WE RECOMMENDED THAT FAS NOT ALLOW SALES PRICES OF COMMODITIES SOLD UNDER THE GSM PROGRAM TO BE GREATER THAN PRICES OF SIMILAR COMMODITIES SOLD OUTSIDE THE GSM PROGRAM. WE FURTHER RECOMMENDED THAT FAS ESTABLISH A MONITORING SYSTEM FOR THIS PROCESS. FAS SUBSEQUENTLY IMPLEMENTED A PRICE REVIEW SYSTEM IN EARLY

1990. ALSO, FAS AND THE CONGRESS HAVE TAKEN ACTION TO CLARIFY THE DEFINITION OF "U.S. AGRICULTURAL COMMODITIES," REQUIRE CERTIFICATION STATEMENTS FROM EXPORTERS AS TO COMMODITY ORIGIN, STRENGTHEN COMPLIANCE ACTIVITIES, AND REQUIRE COMPANIES TO GRANT AUDITORS ACCESS TO RECORDS OF NON-GSM TRANSACTIONS.

AUDIT REPORT NO. 07001-2-HY: GENERAL SALES MANAGER PROGRAM
COMMODITY PRICING REVIEW

IN MARCH 1991, WE COMPLETED OUR SECOND AUDIT, WHICH CONTINUED OUR EVALUATION OF THE REASONABLENESS OF GSM SALES PRICES REPORTED BY EXPORTERS AND GUARANTEED UNDER THE PROGRAM. WE COMPARED THE CONTRACT PRICES FOR WOOD PULP, RICE, CORN, AND SUGAR, AS REPORTED BY EXPORTERS, TO THE COMMODITY FUTURES PRICES OR PREVAILING WORLD PRICES FOR THE SAME COMMODITIES. WE REVIEWED 64 SALES MADE IN FISCAL YEARS 1987 THROUGH 1989 BY 7 EXPORTERS. THIS REVIEW INCORPORATED A REQUEST BY UNDER SECRETARY RICHARD T. CROWDER TO EMPHASIZE SALES TO IRAQ. ALL SALES TRANSACTIONS INCLUDED IN OUR REVIEW OCCURRED BEFORE FAS IMPLEMENTED ITS PRICING REVIEW SYSTEM.

OUR AUDIT REPORT CITED 53 INSTANCES WHERE THE UNIT PRICE THE EXPORTER REPORTED TO FAS EXCEEDED THE WORLD OR FUTURES PRICE BY MORE THAN 15 PERCENT. THE DIFFERENCES WERE AS HIGH AS 113 PERCENT FOR RICE, 50 PERCENT FOR CORN, 37 PERCENT FOR WOOD PULP, AND 36 PERCENT FOR SUGAR. ALL RICE, SUGAR, AND WOOD PULP SHIPMENTS INCLUDED IN THIS REVIEW WERE EXPORTED TO IRAQ; THE CORN WAS EXPORTED TO MEXICO. WE CONCLUDED THAT THE CCC LOAN GUARANTEES FOR THESE SALES COULD BE INFLATED BY AS MUCH AS \$78.6 MILLION.

OUR AUDIT ALSO DISCLOSED THAT EXPORTERS OVERSTATED PORT VALUES (SALES PRICES) IN THEIR APPLICATIONS TO FAS BY INCLUDING DOLLAR AMOUNTS TO COVER AFTER SALES SERVICES. THESE INFLATED AMOUNTS WERE GUARANTEED UNDER THE PROGRAM.

SPECIFICALLY, WE FOUND THAT 11 COMPANIES MADE PAYMENTS OF \$2 MILLION, OF WHICH \$1.9 MILLION WENT TO THE IRAQI GOVERNMENT. THESE EXPORTERS TRANSFERRED SOME OF THE PAYMENTS TO FOREIGN CORPORATIONS, AS DIRECTED BY THE PURCHASER IN IRAQ. WE FOUND THAT SOME OF THE AFTER SALES SERVICES PAYMENTS WERE USED TO BUY MACHINERY PARTS, PICKUP TRUCKS, FORKLIFTS, AND OTHER SUPPLIES. IN SOME CASES, WE COULD NOT IDENTIFY WHAT WAS PURCHASED WITH THE PAYMENTS.

WE RECOMMENDED THAT FAS NOTIFY EXPORTERS WHO INCLUDED AFTER SALES SERVICES IN THEIR PORT VALUES THAT THEY WOULD BE HELD LIABLE FOR ANY LOSSES IN THE CASE OF A LOAN DEFAULT. WE ALSO RECOMMENDED THAT FAS INITIATE SUSPENSION OR DEBARMENT ACTIONS FOR THOSE EXPORTERS WHO OVERSTATED PORT VALUES.

FAS OFFICIALS AGREED WITH OUR RECOMMENDATIONS AND STATED THEY WOULD SEEK LEGAL COUNSEL IN RESOLVING THESE ISSUES. THEY ALSO AGREED TO CLARIFY GUIDELINES ON ITEMS THAT SHOULD BE EXCLUDED FROM PORT VALUES AND TO INCLUDE ONSITE REVIEWS OF EXPORTERS IN THEIR COMPLIANCE PROGRAM.

AUDIT REPORT NUMBER 07099-2-AT: GSM 102/103 PROGRAM - TOBACCO EXPORT SALES

IN DECEMBER 1990, WE ISSUED OUR THIRD AUDIT REPORT ON THE GSM 102/103 PROGRAM. THIS AUDIT DEALT SPECIFICALLY WITH PROBLEMS RELATED TO TOBACCO EXPORTS. THESE PROBLEMS WERE FIRST DISCOVERED IN AN EARLIER REVIEW CONDUCTED BY OIG IN 1988.

DURING THIS AUDIT, WE REVIEWED THE RECORD OF 23 FIRMS, AND 43 OF THEIR AFFILIATES, THAT SHIPPED \$212 MILLION WORTH OF TOBACCO DURING FY'S 1986 THROUGH 1988. THESE ENTITIES RECEIVED \$208 MILLION IN GSM GUARANTEES. OF THIS AMOUNT, WE IDENTIFIED \$147 MILLION IN GUARANTEES, OBTAINED BY 14 FIRMS AND 17 AFFILIATES, WHICH INCLUDED FOREIGN TOBACCO OR AFTER SALES SERVICES.

WE ESTIMATED LOSSES TO CCC OF ABOUT \$37.3 MILLION DUE TO DEFAULTED CREDIT GUARANTEES FOR IRAQ ON TOBACCO SALES CONTAINING FOREIGN TOBACCO OR AFTER SALES SERVICES. WE RECOMMENDED THAT FAS RECOVER THESE LOSSES FROM THE EXPORTERS.

BASED ON INFORMATION DEVELOPED IN OUR AUDIT, WE INITIATED CRIMINAL INVESTIGATIONS OF THE SIX COMPANIES LISTED BELOW THAT SHIPPED TOBACCO TO IRAQ.

At-720-3 JAMES I. MILLER TOBACCO CO., ET AL., WILSON, NC

At-720-5 INTABEX USA, INC., ROCKY MOUNT, NC

At-720-5 CARRINGTON AND MICHAUX TOBACCO CO., RICHMOND, VA

At-720-6 CASALEE AMERICA CORPORATION, WINSTON SALEM, NC

At-720-7 W.A. ADAMS TOBACCO COMPANY, INC., OXFORD, NC

At-720-9 A.C. MONK AND COMPANY, INC., FARMVILLE, NC

OUR INVESTIGATIONS FOUND THAT THESE COMPANIES FALSELY STATED IN THEIR GSM APPLICATIONS THAT THE TOBACCO THEY EXPORTED WAS OF U.S. ORIGIN, AND AS A RESULT RECEIVED GSM LOAN GUARANTEES. IN ADDITION, COMPANY OFFICIALS INFLATED THE PORT VALUE OF THE TOBACCO EXPORTED TO IRAQ TO COVER \$1.5 MILLION IN AFTER SALES SERVICES FOR IRAQ.

THE SIX COMPANIES SUBSEQUENTLY PLED GUILTY TO PROVIDING FALSE STATEMENTS TO CCC BY INCLUDING AFTER SALES SERVICES IN THEIR GSM GUARANTEES. THEY WERE FINED A TOTAL OF \$270,000 AND AGREED TO PAY UP TO \$1.1 MILLION IN RESTITUTION TO CCC.

SF-754-2 SUNSEED GENETICS, INC. ET AL., HOLLISTER, CA

IN ANOTHER INVESTIGATION INVOLVING FOREIGN ORIGIN COMMODITIES, A SEED COMPANY IN CALIFORNIA AND THREE INDIVIDUALS PLED GUILTY TO VIOLATIONS RELATING TO

SHIPMENT OF FOREIGN ORIGIN SEEDS TO IRAQ UNDER GSM GUARANTEES. THE COMPANY OBTAINED THE LOAN GUARANTEES, WORTH \$2.1 MILLION, BY SUBMITTING FALSE STATEMENTS THAT THE SEEDS WERE OF U.S. ORIGIN. SOME OF THE SEEDS HAD BEEN ILLEGALLY IMPORTED FROM SOUTH AFRICA IN VIOLATION OF THE ANTI-APARTHEID ACT. FALSE STATEMENTS WERE ALSO MADE TO THE U.S. CUSTOMS SERVICE.

CCC FOREIGN BANK APPROVAL PROCESS

IN OUR FOURTH REVIEW, WE EXAMINED THE PROCESS CCC USED TO ANALYZE AND APPROVE THE CREDIT-WORTHINESS OF THE FOREIGN BANKING INSTITUTIONS WHICH ISSUE LETTERS OF CREDIT TO FOREIGN BUYERS. IN JANUARY 1990, WE ISSUED OUR RECOMMENDATIONS TO CCC. WE FOUND WEAKNESSES IN CCC'S PROCESS FOR APPROVING FOREIGN BANKS FOR PARTICIPATING IN THE GSM 102/103 PROGRAM. SPECIFICALLY, WE FOUND THAT CCC DID NOT USE FINANCIAL METHODS COMMONLY USED BY THE BANKING INDUSTRY TO REVIEW FOREIGN FINANCIAL INSTITUTIONS. FOR EXAMPLE, CCC ESTABLISHED CREDIT LIMITS FOR FOREIGN BANKS ONLY BY REVIEWING THE BANK'S FINANCIAL STATEMENTS. THIS TYPE OF ANALYSIS IS NOT A RELIABLE METHOD BECAUSE MANY FOREIGN BANKS DO NOT FOLLOW FULL FINANCIAL DISCLOSURE PROCEDURES, CONTINGENT LIABILITIES ARE NOT FULLY DISCLOSED, AND THE QUALITY OF STATED ASSETS MAY BE QUESTIONABLE. IN COMPARISON, WE FOUND THAT THE FEDERAL RESERVE BANK, THE EXPORT-IMPORT BANK, AND FOUR COMMERCIAL CREDIT RATING FIRMS REVIEW FOREIGN INSTITUTIONS' OPERATING ENVIRONMENT, THE ROLE OF THE FINANCIAL SYSTEM OF THE FOREIGN COUNTRY, AND THE INSTITUTIONS' MANAGERIAL AND OPERATIONAL PROCEDURES.

WE ALSO FOUND THAT WHEN CCC OFFICIALS WANTED TO INCREASE A FOREIGN BANK'S CREDIT LINE ABOVE WHAT THEY BELIEVED SECURE, THEY OFTEN REQUIRED CREDIT GUARANTEE ASSURANCES FROM FOREIGN GOVERNMENTS WHICH GUARANTEED REPAYMENTS

FROM THEIR BANKS SHOULD DEFAULTS OCCUR. AT THE TIME OF OUR REVIEW, CCC HAD APPROVED CREDIT THROUGH 28 FOREIGN BANKS THAT EXCEEDED CCC'S ESTABLISHED CREDIT LIMITS BY \$3.5 BILLION.

CCC ALSO ALLOWED FOREIGN BANKS TO EXCEED THEIR ESTABLISHED CREDIT LIMITS BY GRANTING WAIVERS. A WAIVER WAS A MEMORANDUM SIGNED BY THE GENERAL SALES MANAGER WHICH DOCUMENTED THE REASON FOR EXCEEDING THE CREDIT LINE. THE REASON CITED WAS USUALLY "MARKET DEVELOPMENT." WE RECOMMENDED THAT CCC ESTABLISH PROCEDURES WHICH BETTER CONTROLLED THE WAIVER PROCESS AND BETTER PROTECTED CCC'S INTERESTS.

BECAUSE OF CONCERNS OVER FINANCING SALES TO IRAQ, WE ATTEMPTED TO REVIEW CCC'S DOCUMENTATION FOR THE \$514 MILLION CREDIT LINE ESTABLISHED FOR IRAQ'S RAFIDAIN BANK. AT THE TIME OF OUR REVIEW, CCC WAS UNABLE TO LOCATE ITS FILE ON THIS BANK. WE RECOMMENDED THAT CCC TAKE IMMEDIATE STEPS TO OBTAIN CURRENT FINANCIAL INFORMATION FOR RAFIDAIN BANK. IN RESPONSE, CCC DID OBTAIN AN UPDATED FINANCIAL STATEMENT FOR 1988.

BASED ON OUR STUDY, CCC OFFICIALS TOOK IMMEDIATE STEPS TO ESTABLISH AN INTERAGENCY TASK FORCE TO REVIEW CCC'S CAPABILITY FOR MANAGING CREDIT RISKS. AS A RESULT OF THE TASK FORCE'S EFFORTS, THE TREASURER'S OFFICE WAS REORGANIZED TO BETTER FOCUS ON PROGRAM ACCOUNTING AND BANK RISK ASSESSMENTS. ALSO, THE GENERAL SALES MANAGER IMPLEMENTED A NEW DECISION-MAKING PROCESS TO ENABLE CCC MANAGEMENT TO BETTER EVALUATE THE CREDIT RISK INVOLVED WITH ALLOCATING EXPORT GUARANTEES. ALONG WITH THESE ACTIONS, CCC OFFICIALS AGREED TO DOCUMENT THEIR CREDIT RISK ANALYSIS OF FOREIGN BANKING INSTITUTIONS, TO PERFORM PERIODIC ONSITE VISITS OF FOREIGN BANKS, AND TO PROVIDE BETTER TRAINING TO STAFF. WE HAVE SCHEDULED A FOLLOWUP REVIEW OF THIS PROCESS FOR THIS FISCAL YEAR.

BANCA NAZIONALE DEL LAVORO (BNL) INVESTIGATION

SINCE 1989, OIG HAS BEEN INVOLVED IN THE INVESTIGATION OF THE ATLANTA BRANCH OF THE BANCA NAZIONALE DEL LAVORO (BNL). WE ARE PART OF AN INVESTIGATIVE-PROSECUTIVE TASK FORCE WHOSE OTHER PARTICIPANTS ARE THE UNITED STATES ATTORNEY'S OFFICE FOR THE NORTHERN DISTRICT OF GEORGIA, THE FEDERAL BUREAU OF INVESTIGATION, THE INTERNAL REVENUE SERVICE, THE U.S. CUSTOMS SERVICE, AND THE FEDERAL RESERVE BOARD.

THE TASK FORCE INVESTIGATION IS ONGOING, AND MUCH OF THE EVIDENCE WAS GATHERED USING THE GRAND JURY PROCESS. THIS PROHIBITS OUR DISCLOSURE OF DETAILS RELATED TO THE CASE. IN ADDITION, I AM PRECLUDED FROM MAKING PUBLIC MOST OF OUR EFFORTS BECAUSE TRIAL IS PENDING FOR SOME DEFENDANTS ALREADY INDICTED, AND BECAUSE ADDITIONAL PERSONS OR ENTITIES MAY BE PROSECUTED IN THE FUTURE. HOWEVER, I CAN PROVIDE THE FOLLOWING OVERVIEW OF THE BNL INVESTIGATION SINCE MOST OF THE INFORMATION HAS BEEN DISCLOSED IN OPEN PROCEEDINGS.

THE INVESTIGATION BEGAN IN AUGUST 1989 WHEN THE UNITED STATES ATTORNEY'S OFFICE IN ATLANTA RECEIVED ALLEGATIONS THAT BNL-ATLANTA WAS MAKING UNAUTHORIZED LOANS AND KEEPING A SECRET SET OF "GRAY BOOKS" TO DOCUMENT THOSE TRANSACTIONS. WHEN IT WAS DISCOVERED THAT SOME OF THOSE UNAUTHORIZED EXTENSIONS OF CREDIT WERE GUARANTEED BY THE CCC, OIG JOINED THE INVESTIGATION.

ON FEBRUARY 28, 1991, A GRAND JURY INDICTED THREE EMPLOYEES OF BNL-ATLANTA, THE RAFIDAIN BANK, FOUR IRAQI OFFICIALS, AND A TURKISH-OWNED CORPORATION IN NEW YORK ALONG WITH ITS TURKISH MANAGER.

THE 347-COUNT INDICTMENT, IN SUMMARY, CHARGED THE DEFENDANTS WITH A SCHEME TO DEFRAUD BNL BY CAUSING THE BNL-ATLANTA OFFICE TO MAKE \$4 BILLION IN SECRET UNAUTHORIZED LOANS AND EXTENSIONS OF CREDIT, PRINCIPALLY FOR THE BENEFIT OF IRAQ. ABOUT \$1.9 BILLION OF THIS TOTAL INVOLVED CCC CREDIT GUARANTEES UNDER THE GSM PROGRAMS. OF THE APPROXIMATE \$3.5 BILLION ACTUALLY DISBURSED, ABOUT \$1.8 BILLION WAS OUTSTANDING WHEN THE INDICTMENT WAS RETURNED. THE INDICTMENT CHARGED THAT THE AGREEMENTS TO EXTEND CREDIT TO IRAQ WERE HIDDEN FROM BNL HEADQUARTERS IN ROME, AND THAT FALSE DOCUMENTS WERE SUPPLIED TO AUDITORS AND GOVERNMENT AGENCIES (INCLUDING USDA) TO CONCEAL THE UNAUTHORIZED FUNDING. OF THE TEN DEFENDANTS CHARGED ON FEBRUARY 28, TWO BNL-ATLANTA OFFICIALS AND THE TURKISH-OWNED CORPORATION PLED GUILTY AND ARE AWAITING SENTENCING. IN ITS PLEA AGREEMENT, THE CORPORATION AGREED TO PAY A \$1 MILLION FINE AND PAY \$5 MILLION IN RESTITUTION TO BNL IN ROME. THE FORMER BNL-ATLANTA BRANCH MANAGER IS SCHEDULED FOR TRIAL IN JUNE; THE OTHER DEFENDANTS REMAIN FUGITIVES.

ONE OF THE USDA-RELATED ABUSES DISCOVERED DURING THE BNL INVESTIGATION WAS THE PAYMENT OF AFTER SALES SERVICES TO THE IRAQI GOVERNMENT, THE NET EFFECT BEING THAT USDA GUARANTEED PAYMENT FOR BOTH THE AGRICULTURAL COMMODITY AND THE KICKBACK. WE FOUND A SIMILAR SITUATION IN WHICH AN EXPORTER INFLATED THE VALUE OF COMMODITIES SHIPPED TO IRAQ UNDER CCC GUARANTEES IN ORDER TO GENERATE KICKBACKS TO BNL-ATLANTA OFFICIALS AND OTHERS. ANOTHER ABUSE WAS BNL-ATLANTA'S ISSUANCE OF UNAUTHORIZED PERFORMANCE BONDS AND LOANS FOR COMMODITY SHIPMENTS GUARANTEED BY USDA. SOME OF THE DEFENDANTS WERE ALSO CITED FOR FURNISHING FALSE INFORMATION TO AUDITORS FROM VARIOUS GOVERNMENTAL AGENCIES REGARDING COMMODITY SHIPMENTS AND EXTENSIONS OF CREDIT.

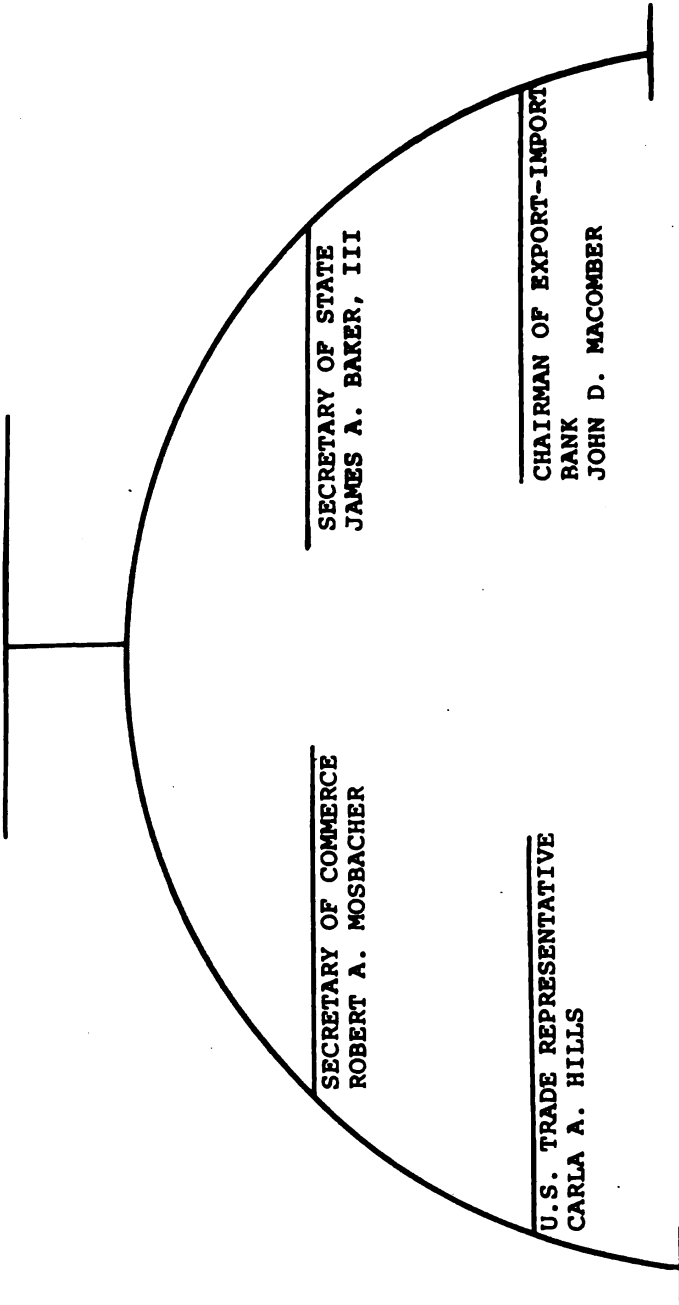
FOLLOWING THE FEBRUARY 28 INDICTMENT, THREE OTHER FORMER EMPLOYEES OF BNL-ATLANTA ALSO ENTERED GUILTY PLEAS TO OFFENSES SIMILAR TO THOSE DESCRIBED

IN THE INDICTMENT. THEY TOO ARE AWAITING SENTENCING. ALL OF THOSE WHO PLED GUILTY HAVE AGREED TO COOPERATE WITH THE GOVERNMENT AND PROVIDE INFORMATION AND TESTIMONY REGARDING OTHER ACTUAL AND POTENTIAL DEFENDANTS.

THE TASK FORCE IS CONTINUING TO INVESTIGATE PERSONS AND ENTITIES ASSOCIATED WITH BNL AND IRAQ. SOME OF THESE SUBJECTS WERE PREVIOUSLY NAMED AS UNINDICTED COCONSPIRATORS ASSOCIATED WITH THE FEBRUARY 28, 1991, INDICTMENT. OTHER SUBJECTS SURFACED BASED ON AUDIT WORK PERFORMED OUTSIDE OF THE TASK FORCE BY OIG AUDITORS, WHILE THE REMAINDER WERE IDENTIFIED USING OTHER MEANS. IT IS LIKELY THESE NEW INVESTIGATIONS WILL NOT BE CONCLUDED FOR MANY MONTHS.

THIS CONCLUDES MY STATEMENT MR. CHAIRMAN. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS.

NATIONAL ADVISORY COUNCIL
 SECRETARY OF THE TREASURY
 NICHOLAS F. BRADY, CHAIRMAN



SECRETARY OF COMMERCE
 ROBERT A. MOSBACHER

SECRETARY OF STATE
 JAMES A. BAKER, III

U.S. TRADE REPRESENTATIVE
 CARLA A. HILLS

CHAIRMAN OF EXPORT-IMPORT
 BANK
 JOHN D. MACOMBER

CHAIRMAN OF THE FEDERAL
 RESERVE SYSTEM
 ALAN GREENSPAN

DIRECTOR OF THE
 INTERNATIONAL DEVELOPMENT
 COOPERATION AGENCY
 DR. RONALD ROSKINS

APPENDIX A -- FUNCTIONS, ORGANIZATION, AND OPERATIONS OF THE NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL POLICIES

Functions

The National Advisory Council on International Monetary and Financial Policies (NAC) is responsible for coordinating United States participation in the international financial institutions and the policies and practices of agencies of the U.S. Government that make, or participate in making, foreign loans or that engage in foreign financial, exchange, or monetary transactions.

The NAC was created by the Bretton Woods Act of 1945. It was abolished, as a statutory entity in 1965, but was reestablished by Executive Order the following year with the same membership. However, one of its major functions, to instruct the representatives of the international financial organizations, was transferred to the Secretary of the Treasury.

In 1978, pursuant to a reorganization of U.S. development assistance programs, responsibility for reviewing the development aspects of proposed multilateral development bank loans and credits was transferred from the NAC to the Working Group on Multilateral Aid (WGMA) of the Subcommittee on Multilateral Aid of the Development Coordination Committee, then chaired by the Administrator of the Agency for International Development. The resulting division of responsibilities between the two groups is still in effect.

In its current form, the NAC is an advisory body, authorized, *inter alia*, to review proposed transactions, programs, and policy issues to the extent necessary or desirable to coordinate U.S. policies. With regard to the international financial institutions, such as the World Bank, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank and Fund, the Council seeks to ensure that, to the maximum extent possible, their operations are

*The abolition of the NAC took place under the terms of Executive Reorganization Plan No. 4 of 1965. It was reestablished pursuant to Executive Orders No. 11238 and No. 11269. The texts of these executive orders as amended, together with relevant sections of the Bretton Woods Agreements Act and other legislation relating to the National Advisory Council, are reprinted in Appendix A to the Council's annual reports for 1985 and years preceding.

SOURCE: 1989 National Advisory Council Annual Report

conducted in a manner consistent with U.S. policies and objectives and with the lending and other foreign financial activities of U.S. Government agencies.

The MAC formulates and reviews policies and programs for use by the U.S. representatives to these institutions and provides advice to the Secretary of the Treasury, as U.S. Governor of the respective international financial institutions; on the policies and selected proposed transactions of the institutions. The MAC advises the Secretary of the Treasury on proposed actions by these institutions requiring United States approval on such subjects as the flotation of securities, increases in quotas and subscriptions, and changes in their articles of agreement. The MAC also renders advice on problems relating to the administration and management of the international financial institutions and provides the oversight required to ensure that these institutions are efficiently fulfilling their functions and making effective use of the resources made available to them.

Organization

The members of the MAC, at the principals' level, as of September 30, 1989, were as follows:

- The Secretary of the Treasury, Nicholas F. Brady, Chairman
- The Secretary of State, James A. Baker, III
- The U.S. Trade Representative, Carla A. Hills
- The Secretary of Commerce, Robert A. Mosbacher
- The Chairman of the Board of Governors of the Federal Reserve System, Alan Greenspan
- The President and Chairman of the Board of Directors of the Export-Import Bank of the United States, John D. Macomber
- The Director of the International Development Cooperation Agency, Mark Edleman (acting) DIRECTOR: DR. RONALD ROSKINS

The MAC also has a Committee of Alternates, composed of representatives of the member agencies at the assistant secretary level, who are empowered to act for their principals. The following were serving as MAC Alternates as of September 30, 1989:

- Charles H. Dallara, Assistant Secretary of the Treasury for International Affairs

- Eugene McAllister, Assistant Secretary of State for Economic and Business Affairs
- Don Phillips, Assistant U.S. Trade Representative
- James P. Moore, Jr., Assistant Secretary of Commerce for Trade and Development
- Edward W. Kelly, Jr., Member, Board of Governors of the Federal Reserve System
- John D. Macomber, President and Chairman of the Board of Directors of the Export-Import Bank of the United States
- Richard E. Bissell, Assistant Administrator, Agency for International Development

The day-to-day work of the NAC is handled by a Staff Committee, which is composed of economists and other professionals from the NAC member agencies. They are often joined by representatives of other agencies of the U.S. Government, such as the departments of Defense and Agriculture and the Office Management and Budget.

The U.S. representatives to the international financial institutions and members of their staffs also participate in the work of the NAC. They were, at the end of fiscal year 1989:

- U.S. Executive Director of the International Monetary Fund, Thomas C. Dawson, II (Charles S. Warner, Alternate)
- U.S. Executive Director of the International Bank for Reconstruction and Development and of the International Development Association and U.S. Director of the International Finance Corporation, E. Patrick Coady (Mark T. Cox, IV, Alternate)
- U.S. Executive Director of the Inter-American Development Bank, Larry K. Mellinger, (Alternate vacant)
- U.S. Director of the Asian Development Bank, Victor H. Frank, Jr. (William R. Thomson, Alternate)
- U.S. Director of the African Development Bank and Fund, Mina Nedelcovych (Steven Donovan, Alternate)

The offices of the U.S. Director of the Asian Development Bank and of the U.S. Director of the African Development Bank and Fund are located in Manila, the Philippines and in Abidjan, Cote d'Ivoire, respectively.

Operations

The bulk of the work of the NAC is handled by its Staff Committee, which meets, as necessary, on a weekly basis. During its meetings, the participants thoroughly discuss each issue that arises for NAC review, bringing to bear the perspectives and interests of their respective agencies. As appropriate, the representatives of the NAC member agencies may be polled at the conclusion of discussion of an issue to determine a Council position on it.

In cases which require immediate NAC action, polls may be conducted by telephone. This procedure is also used during periods when a formal meeting of the Staff Committee would not be justified because the issues that have arisen that week are non-controversial. Regardless of the procedure employed, however, it is assumed in all cases that the member agencies' representatives cast their votes on behalf of their principals to ensure that appropriate high-level attention is focused on the particular policy issues or proposals involved.

NAC positions are determined by the votes of a majority of the NAC member agencies. Each position is recorded as an NAC "Action", a formal document of the Council. During fiscal year 1989, the NAC took 233 Actions. In addition, many subjects were reviewed which did not require the Council to take a position.

Where possible, a unanimity of views among NAC member agencies is sought, and, in the majority of cases, achieved. When split voting does occur, it may indicate that fundamental differences exist on a particular aspect of U.S. policy. This may trigger a special review of the issue in question.

The NAC Alternates meet infrequently, on an ad hoc basis. They may be convened to deal with significant issues on which the members of the Staff Committee have been unable to agree. Or, a member agency may request a meeting of the Alternates to discuss an issue that it feels requires higher level attention. Normally, differences are resolved at this level by the development of a consensus position, rather than a formal poll.

Responsibility for coordination of the NAC's operations lies with the Secretary of the NAC, who also serves as Chairman of the Staff Committee. The Secretary, with the assistance of a small staff, performs such functions as setting the agendas, distributing documents, and making the arrangements for meetings of the Staff Committee; presiding over Staff Committee meetings; conducting polls and preparing the resulting Actions; and coordinating the preparation of the NAC's annual reports to the President and to the Congress on the Council's activities.

During FY 1989, Allen E. Clapp was Secretary of the NAC and editor of this report. Gavin Buckley was Secretary of the NAC Staff Committee and WGMA and coeditor of this report.

**FOR NATIONAL ADVISORY COUNCIL
USE ONLY**

NATIONAL ADVISORY COUNCIL

STAFF COMMITTEE

MINUTES

89-37

September 12, 1989

**Allen E. Clapp (Chairman), Treasury Department
Gavin Buckley (Secretary)
Joan Kotze
Rachel Bayly**

Mary Knox, Agency for International Development

Robert Emery, Federal Reserve Board

Robert Lee, Department of Commerce

Robert Downes, Department of State

Helene Walsh, Export-Import Bank

**Kerry Reynolds, Department of Agriculture
David Kunkel
Meghan Harris
Patrick Lyons**

Matthew Gallivan, U.S. Trade Representative

Kenneth Lichtman, Department of the Interior

Lisa DeSoto, Trade and Development Program

Special Order - March 2, 1992

BNL, Iraq, and the CCC Program

- National Advisory Council (NAC) organizations and functions
- NAC membership
- The fiscal year 1990 decision
- Intervention letters
- The deputies meeting
- Conclusion

that is not very interesting. Nobody did anything wrong. There is no sex, or violence, or scandal involved in that.

I ask my colleagues, "Wouldn't it be nice if we had a Presidential campaign in which the candidate says, 'Here's what we believe about this country's future, and here's the specific policies we would like to implement to get us there.'?"

Mr. Speaker, it is interesting. I mentioned this Federal debt and yearly Federal deficits. Not one story have I seen, with the exception of one instance in the front page of the Washington Post, about the dimensions of this debt proposal, and yet this kind of fiscal policy will saddle this country with obligations and troubles far beyond the other policies that are being discussed on the campaign trail and far beyond the policies that are evaluated in minute detail by all these journals and newspapers. But there is almost no mention of it.

We could ask the American people, "What do you think the proposals for deficits are by President Bush in his budget?" Most people do not know. It is not reported on. This is not news. It would be news if it were Oeniffer Flowers holding it up, if it had something more interesting in it, but it is not news because all it talks about is adding \$2 trillion to an obligation our kids are going to have to pay, and it is adding an obligation to us that means we are not going to win in economic competition if we embrace this kind of approach.

Now the question of whether our children are going to have a future with jobs and opportunity and growth is not a question of whether we embrace the Republican approach or the Democrat approach. I do not think Republicans are all wrong. I am a Democrat, but I do not think they are all wrong. I think they have got some good ideas. I do not think Democrats are all right despite the fact we have some good ideas. I do not believe the President is solely to blame.

But I will tell my colleagues this: "There is a lot wrong on that side and a lot wrong on this side, and a lot of policies coming from the White House are goofy."

What we ought to decide to do is get the best of what everybody has to offer and start insisting that there be some leadership. All my colleagues know, we have a lot of things that we could do together, if we would start deciding that we all belong to the same team. We compete with the Japanese, which I have mentioned a couple of times. When the Japanese compete in the private sector, they compete as a team. It is not just the company that is selling a VCR in this country. It is that company. It is the related supplier group of that company, it is that company's banker, and it is that company's government that is called the *keiretsu*. The Japanese *keiretsu*, that is that organization of inter-

ests that is designed to try to sell into this marketplace, is going to compete against one little American company out here who cannot talk to their other companies because that would violate antitrust, whose government is largely at odds with the company. We do not have a government and a series of companies deciding how to work together to win. They are fighting each other. They are trying to figure out how to battle each other rather than battling the other economic competitors, and, until we change that attitude and decide on a different strategy in a whole range of these areas, we are not going to win.

Now my hope is that this Presidential campaign produces a result in which finally we will hear descriptions from people about what they would like to do about this country's future. What do we do about health care? What do we do about trade policy? What do we do about fiscal policy? What kinds of policies can we initiate to encourage, once again, manufacturing and production of real jobs?

These people say, "Well, but we've produced all these jobs." Who cares? If we lose a \$15 job and acquire a \$4.35 job flipping hamburgers, has this country really produced anything very much? I mean, that is what is happening. We are seeing our manufacturing base leave this country, and we are seeing the growth of frying hamburgers.

I have nothing against hamburgers. Hamburgers are just fine. But these are not long-term, well-paying jobs that are going to sustain families and provide a future that families can have some confidence about, and we have got to develop a policy in this country that decides we have a strategy, a strategy that we jointly work on together.

□ 1300

God forbid that somebody should ever suggest that we have an industrial policy, but we are one of the few countries in the world that does not have a plan. There is no plan. If we cannot decide the priorities, perhaps we should just take the Japanese plan. That is probably good enough. The Japanese certainly have a plan. They know what the priorities are. If we decide we cannot develop priorities, maybe we ought to just take a look at the priorities of our nearest competitor and say, "Yes, those are important for a manufacturing-based economy."

But the minute you mention industrial policy, you know what happens. The administration, which is dead set opposed to it, says, "Oh, what you want to do is develop a public policy that picks winners and losers in the private sector. We are against that." They continually say, "We are against that. We don't want the Government involved in picking winners and losers."

So I have asked the Trade Ambassador

Is there anything that we are threatened with the loss of that you think would hurt our country? For example, if a major segment of the communications industry went offshore and we lost the whole manufacturing capability there, or of the auto industry, whatever, is there anything the loss of which you think would irreparably weaken this country in the future?

Well, the answer is, "no," because to think that is to require that we do something in terms of establishing policies that would in their minds say we should pick winners and losers.

I am not suggesting we pick winners and losers. I am just saying it is about time this country have a plan. The plan ought to be to try to develop public policies to create an opportunity once again for us to maintain a manufacturing base with some decent jobs and give our producers and give our workers an opportunity to compete.

This country is a country whose people have demonstrated time and time again that given the opportunity, there is no finer work force in the world. The Japanese can say what they want about our work force, but they did not outproduce us in the 1940's and they would not today if we had policies in place that encourage production of the right things and have quality programs in this country to demonstrate to the rest of the world that "made in the USA" is the best you can get. Our production in the Second World War suggests that when we have a national purpose, we get national results in an American people. I suggest to Presidential candidates that they adopt the same national purpose to what I think is an economic emergency. I think when we talk about \$4 trillion in debt that is a national emergency, and I think it is time for us to ask of all our candidates, Republicans and Democrats, Presidential candidates and congressional candidates, "What is your plan? What do you want for this country? What would you do to put America back on track again?" Because the American people do not deserve pity; the American people deserve an opportunity. If we give them the opportunity with an economy that is growing, this country is going to do just fine.

REPORT ON BANKING COMMITTEE'S INVESTIGATION OF THE ATLANTA BRANCH ENL

The SPEAKER pro tempore (Mr. HUGHES). Under a previous order of the House, the gentleman from Texas (Mr. GONZALEZ) is recognized for 30 minutes.

Mr. GONZALEZ. Mr. Speaker, today is a continuation of a series of special orders that for almost 2 years I have been giving with the indulgence of my colleagues concerning the Banking Committee's looking into various activities, among others principally the Banca Nazionale del Lavoro (BNL), the activities in Atlanta, GA, and the incredible pattern of these activities.

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aided and abetted by our national leaders and based upon what obviously shows today was a misdirected course.

The reason I continue these reports is that I will offer the documentation that will be the basis for the remarks that I will make chronologically, pointing out the series of actions that led to this incredible commitment by our Nation's leaders over the course of several years, to the extent of almost \$4 billion of taxpayers' exposure to guaranteed letters of credit or loans that were facilitated through this Italian agency bank in Atlanta to Iraq. Also the reason for it is that we have always had a very definite legislative purpose. It has not been our practice, no matter what temporarily high-profiled publicity a certain issue might give rise to, such as 3 years ago the S&L scandals and the activities of some individuals that had been prominently paraded in our press.

We live in a world in which these images are forgotten less than 3 months after the event, or at least they are not pursued. But that is not our case. We have very specific reasons for first informing my colleagues. I promised I would do that the very first day of the last Congress, at which time I was officially elected chairman of the U.S. House of Representatives Committee on Banking, Finance and Urban Affairs, and I promised then that I would do what I had been doing through the years, even though at most I had been chairman of several subcommittees, and that is relate to my colleagues and report those activities that transcended my purely parochial responsibilities in representing a given geographic area or district of our country.

So I felt it would be more important to do so. It has not been done before, but there is nothing from the investigatory hearings we had in 1988, 1990, and 1991, not only with respect to S&L's but such things as the BCCI and the rest reported faithfully by this means in the *Rumors* to my colleagues. After all, I believe that that was inherently understood to be the intention of our committee system when our Congress was first organized, after the adoption of the Constitution in 1788. Of course, at that time the country was small, the representation was smaller in number, and we had a very different country, radically different and totally unimagined by succeeding generations, even in the early portion of this century.

Our objective is to obtain for this country its yet-to-be formulated regulatory oversight laws and structure that will give protection to the national interest from the improper activity of billions of this kind of money that is reported by so-called international banking or financial activities in our country.

□ 1310

It now amounts to somewhere around or better than \$999 billion

yearly. It is high velocity money, just a little chunk of it has high leverage. And there is no question the kind of crime we have, such as drug money laundering, and the like, would not be possible if we did not have a meshing in between the illegal activities in the narcotics trafficking and such things as financial activities in banking.

As a matter of fact, let me say parenthetically what I have said before to my colleagues, and that I opted to stay on this committee since I was assigned to it when I first came to the Congress about 36½ years ago. I opted to stay on it because it is my field of interest and also because I felt and feel that at the bottom of everything, all through history, certainly to the present day, but all through history at the bottom of everything are such things as banking and finance.

Today there is nothing that has not affected or influenced our country, from war to peace, so-called, to commercial and diplomatic intercourse with the other nations that is not founded in some way on banking or finance.

The hostage taking, for instance, at the bottom of the celebrated taking of the hostages was financing, involving \$10 billion of one of our biggest banks, which had the power at the time. And I will go into that later in subsequent reports because it has never been reported to the Congress or to the people, that involved were about 10 billion dollars' worth of those moneys in this particular bank in the United States.

Of course, the rest is history because it was inextricably linked with the fallen Shah of Iran. Of course, it is tragic, but the fact remains that it was not until the Federal Reserve official in the Federal Reserve Bank in New York pressed a button, the same day that President Reagan was taking his oath of office, that by pressing that button and releasing several billion dollars in London of that money to Iran, at that moment the hostages were released.

The same thing happens with everything, including the Persian Gulf war. It was the presence of some 200 billion dollars' worth of Kuwaiti funds in our banks here that greatly influenced our policies. And also the fact that things are done that I cannot see, even though it is not strictly within the jurisdiction of our committee, the Committee on Banking, Finance and Urban Affairs. For instance, how many of my colleagues—maybe they do, maybe they know more than I have up until lately.

How many of the people out in my district I know are not aware, even editors and newspaper reporters, that we have entered into a 10-year treaty with this country that we liberated, so-called Kuwait. It is a 10-year treaty of defense.

How many of my colleagues realize what our stake still is in personnel, servicemen, American, and armament,

still remaining in that Middle East sector. In other words, what I am saying is that at the bottom of all of that is financing. Because as my colleagues will remember, we were told by the President that the war would be mostly financed by our so-called fellow allies or U.N. members.

The truth of the matter is that in the last supplemental—dire supplemental emergency bill—we appropriated an installment of over \$3 billion. That is taxpayer money for the so-called Desert Storm.

So at the bottom of everything is finance. And the fact that is we have, we are the only Nation of any particular industrial size that has no screening board. We do not even have sufficient regulatory oversight. Certainly the Federal Reserve Board, which is the one that has prime responsibility for this international flow of funds, cannot and does not even now.

We did amend the International Banking Act of 1978 this last year in the Banking Act, but our point is we are still trying to establish whether, as I do not think it was, those are sufficient and adequate safeguards to guard the national interest.

I want to continue the report on the BNL and the extensive use of the U.S. Government guaranteed export promotion programs for Iraq. These are export programs that are based on taxpayers' guarantees. Of course, the taxpayer, at this point, is left holding the bag with over \$3 billion, including some \$200 million of the Export-Import Bank guarantees to Iraq.

BNL was by far the largest participant in the Commodity Credit Corporation, a program that helped to finance the sale of over \$5 billion in agricultural commodities to Iraq. And it was the second largest participant in the Export-Import Bank that guaranteed the sale of over \$300 million in goods to Iraq.

The committee's investigation of BNL, and let me point out at this time, the committee first began having hearings. In fact, it will be 2 years in October. And we do not go around making big news releases because we are interested in legislating. We are hot out to make waves, as far as publicity is concerned. That determination is going to be made by the news disseminating media anyway.

I cannot tell my colleagues that I know what will or will not make news. Things that I thought did not, have; things that I thought would, have not. So from that standpoint, occasionally there will be a flash of interest in this, that, and the other thing. But the point is that the overriding need at this point for the country is to have some, even minimal grasp of, say, the direct asset acquisition by foreign interests of our banking resources.

We know, for instance, that at this point about 25 percent plus is Japanese acquired, but if that gets Members excited, remember that the Jap-

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ness interests and their direct acquisitions of either direct interest or direct assets are about 50 percent of the British investment in our country. We do not hear much about that. That is something else that is in the jurisdiction of someone else.

Nevertheless, the Committee on Banking, Finance and Urban Affairs has a responsibility of focusing on the needed legislation, trying to reach a level of consciousness among the majority of our fellow 434 Members to the importance of it and try to draft such legislation as is possible under our sort of compromise procedures as will be as near adequate as it is humanly possible to construct.

The committee's investigation of BNL participation in United States credit programs has led to a broader look at the United States policy toward Iraq because of the magnitude of the BNL scandal and the fact that it touched upon nearly all the elements of the United States policy toward Iraq. The BNL scandal sheds a revealing light on United States-Iraq relations.

I also want to remind my colleagues of what I said last week, that such banks as BNL, such banks as most of these that are involved in international interests and transactions in our country are government owned. BNL is owned by the Italian Government. So we have very delicate additional questions about national policy, not only our Nation's national policy but that other country's national policy, and how these institutions fit in or did not into those policies.

During last week's special order I discussed the Eximbank program for Iraq.

I showed how the Eximbank was continually pressed by the State Department and even President Bush, at the time Vice President, but as I will indicate later, even after he took his oath of office as President in 1989, he was still pushing for Iraq's aid.

□ 1329

This is true, even though Eximbank is charged by law, and we have jurisdiction of the Eximbank that will be a reasonable assurance of repaying those debts. Therefore, I have asked the GAO to determine if the Eximbank violated its charter by granting credit to Iraq.

Today I will discuss the Commodity Credit Corporation's export promotion program for Iraq. I will illustrate how the Bush administration placed inordinate importance on the CCC program for Iraq and how the BNL scandal affected United States policy toward Iraq.

An October 1989 meeting between Secretary of State James Baker and Iraqi Foreign Minister Tariq Aziz illustrates that point. The main focus of that point turned out to be the BNL scandal.

During the early 1990's the United States policy toward Iraq was motivated

by the fear of Iranian dominance of the Middle East.

There is another thing that is lost sight of, and I think is very little appreciated in our country. Iraq is a non-Arabic country. It is not an Arabic country. Iraq is. We must remember the distinction, because apparently those that have gotten all the notoriety, from President Reagan to Colonel North and Security Adviser McFarlane, do not seem to realize that. They played into the hands of people and nations that have been at war, and still continue in a state of war, and have been in a state of war since 1948; this is, Israel and Iraq.

Unless we know that this Middle East is complex, complicated, but like any other section of the country, Middle Europe, or as they say in Germany, Mitteleuropa, or the Far East, we seem to be totally either aware or unaware or unwilling to be aware of the tremendous corpus of history that is there, so our perception cannot be a correct one.

I have always said, even since then, that had we had the correct perception of the country we would not have lost 54,000 soldiers in Korea and 58,000 in Vietnam. But that is neither here nor there. The only connection there is that we continue with these misperceptions in the Middle East.

If we think that we are looked upon as the saviors, let me assure the Members that in the Middle East the fixed, rooted perception, whether it is true or not is immaterial, the rooted perception is that we have stepped into the shoes of the two departed colonial powers, France and England. Be that whatever it is.

The logic that I report here is best spelled out in a 1984 memorandum to then Vice President Bush related to his efforts to have the Eximbank finance the Iraqi Aqaba pipeline project. I am not going to read from it, and I have a copy of the memorandum which I will place, together with all the documents, at the end of my discourse this morning.

I quote:

The war between Iraq and Iran directly affects our vital interests in the Middle East, and particularly in the Persian Gulf.

This is Vice President Bush.

Our objective is to bring the war to a negotiated end in which neither belligerent's dominance and the sovereignty of both is preserved.

Now, he is Vice President of a regime that in the meanwhile is also dealing through the so-called client states, even though sometimes client states become masters, such as Israel, with Iran, and therefore the big scandal that later erupted, and only a portion of that has been seen, of the aid of arms to Iran.

So we were foolish enough to think that we could be helping each one of the combatants without the other realizing it. It is absurd. Of course they know. Therefore, no respect.

I will continue, and I quote:

We believe victory by either side would have a serious destabilizing effect on the region.

I am going to repeat that:

We believe victory by either side would have a serious destabilizing effect on the region. At this point Iran is the hegemonic party, unwilling to negotiate in part because it believes it can win in the war of attrition. We must therefore seek means to bolster Iraq's ability and resolve to withstand Iranian attacks as well as to convince Iran that continuing hostilities is useless.

Have we learned anything? No. Today we have been involved in negotiations mostly to pay back some of the money that I spoke of that had gone out of Iran and led to the release of the last hostages.

If the Members think the release of the last hostages was just accidental, let me assure them that it was connected with our payment of something that had been demanded, and coincidental with that, also there is good reason to know that right now Iran is also being enabled to get some help through other countries for arms procurement.

Why is Iran building to such a tremendous point of arms ability? What is its goal in the Middle East, now that we have conquered Iraq and consider it a continuing enemy? Why is Iran being pumped up like these messages indicate we were doing with the case of Iraq on that occasion?

With that broad policy and strategy that I have just quoted in mind, the policymakers sought out a path to achieve those goals. Since the administration had a stated policy of prohibiting the sale of United States military hardware directly to Iraq, the options available to assist Iraq were limited. The administration chose to assist Iraq by providing financial assistance.

In determining how to assist Iraq financially, a March 16, 1983, Internal State Department memo to Secretary of State George Shultz states, and I quote:

There are two possibilities for the official credit for Iraq: (a) Eximbank program; (b) CCC blended credits or guarantees for agricultural exports.

An October 31, 1983, State Department cable shows the benefits of such a strategy, and I quote:

If considering ways to build international confidence in Iraq's economic and financial future, we should give serious thought to offering Eximbank credits. New U.S. credits, in combination with our CCC credits, will demonstrate U.S. confidence in the Iraqi economy. This in turn could encourage other countries to provide similar assistance. Such concrete demonstrations of support could ease pressure on Iraq.

Increasing Iraq's access to credit allowed it to feed its people on borrowed money, thus freeing scarce foreign exchange, to purchase military hardware to fight the war against Iran.

As I said last week, the Eximbank was repeatedly pressured by the State Department to open its program to Iraq. On three separate occasions

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President Bush, then Vice President, intervened on behalf of Iraq and Eximbank. Luckily the Eximbank charter contained provisions that made it difficult to lend money to a nation like Iraq, so its exposure to Iraq was limited at the time Iraq invaded Kuwait, but for no other reason.

□ 1330

The same cannot be said of the CCC program. The CCC is a division of the U.S. Department of Agriculture and its Foreign Agricultural Service. The goal of the CCC program is to assist U.S. farmers to sell agricultural products abroad, that is, by granting credit to a nation that wants to purchase U.S. products.

The usual terms of CCC loans is 3, with some as long as 7 years. The CCC is required by regulation to allocate guarantees on the basis of the receiving country's needs, its market potential, and the likelihood that the loans would be repaid.

Despite these limitations, in 1988 and 1989, a whopping 30 percent of the total CCC program was dedicated to Iraq. Utilizing the CCC program as a means of bolstering Iraq's financial position was a great success. For instance, in 1983 at a time when United States officials feared that Saddam Hussein might be overthrown because of food shortages caused by the Iran-Iraq war, the USDA sold \$384 million in CCC-guaranteed agricultural products to Iraq. The program grew steadily, and by 1988 CCC-guaranteed sales of agricultural commodities to Iraq reached a \$1 billion annual clip. Until recent times, the CCC program was poorly managed, and corruption by exporters and importing nations was not unusual.

The GAO, our Government Accounting Office, and the USDA Inspector General have done almost a dozen reports on various problems with the CCC programs. Many of them concern Iraq.

The following provides a clear example of the magnitude of the problems encountered at the CCC. In September 1989, 1 month after the BNL scandal broke, the USDA Office of Inspector General admitted that the CCC had some several internal-control problems, and the Office of Inspector General wrote as follows:

The OIG's program was operating without the benefit of a compliance review process or program to assess the direction and impact the program has had on U.S. and foreign agricultural marketing activities. As a result, U.S. exporters are participating in a \$6 billion program without CCC ensuring a review or periodic check to make sure the program is operating in accordance with applicable laws and regulations.

In the past several years, the Congress and the USDA have made many changes to improve the operation of the CCC program. In light of the Iraq program, the committee is concerned whether the changes in regulating go far enough.

The CCC program for Iraq was rife with corruption. Demands for kickbacks and bribes were not unusual. For example, several Iraqi Government organizations that purchased United States agricultural commodities requested United States exporters to pay kickbacks in order to win an order. Typically, these kickbacks included cash, truck parts, and machinery. While the Iraqis admitted to this practice, the CCC never punished Iraq for any violation of the CCC regulations.

However, five BNL-financed tobacco exporters did plead guilty in 1990 to violating regulations of the CCC program by paying kickbacks to various Iraq entities totaling \$1,627,341, and another scheme used by the Iraqis to extract money from United States exporters was to levy a stamp tax on United States agricultural imports. On several occasions, the Iraqis were caught engaged in that scheme, but escaped without punishment.

A third scheme involved the use of foreign-source commodities. In September two tobacco exporters pleaded guilty to violating regulations of the CCC program by selling Iraq foreign tobacco, claiming it was American tobacco. Maybe they could not tell the difference between a camel.

Documents obtained by the committee showed that the CCC program for Iraq continued to increase despite grave concerns among various Government agencies about the ability of Iraq to repay its debts. For example, documents show that beginning in 1983 the Federal Reserve Board, of all people, the Treasury Department, and the Export-Import Bank voted at different times against increases in the CCC program for Iraq. They feared that Iraq was not creditworthy and would not be able to repay the bills that it owed the United States.

In one meeting in the fall of 1988, as I said, at the end of the presentation, a Federal Reserve official warned Iraq only repaid creditors when they were offered greater lines of credit. He called the CCC program for Iraq a Ponzi-type scheme. One of the reasons that Iraq was able to obtain ever larger credit was the inadequate country-risk analysis process used by CCC to determine which nations were likely to repay their debts and how much could prudently be loaned to a nation.

A March 1990 USDA memo stated:

While our formal method for establishing country program limits is not yet operational, the consensus of my staff prior to our consultation with Iraq last fall was for a maximum program level of \$600 million.

One of the best illustrations of the absurdity of the situation involved the Export-Import Bank, and again, as I said last week, Iraq was often in arrears or in default in its Eximbank program; in fact, Iraq was suspended from Eximbank programs between 1986 and 1987 because of nonpayment, but during that same period, the CCC

approved \$1 billion in credit for Iraq. How could one Government agency grant credit to Iraq, while another located less than a mile away was being stiffed?

Obviously foreign policy drove the CCC program, not the Iraqi ability to pay. This is illustrated by the fact that the CCC program was over 15 times that of the Eximbank program, or at least for Iraq.

Because the CCC program lacked tough standards for granting credit, the administration found it easier to use the CCC program for Iraq as a foreign policy tool at the expense of the United States taxpayers.

As stated earlier, Iraq's finances were clearly not in good shape. To illustrate Iraq's precarious financial position, look at the comments in an October 8, 1989, cable to the State Department from Ambassador April Glaspie:

Economic and commercial officers met October 3 to exchange information and views on Iraq's payment problems, the security situation, the BNL affair, and the November Baghdad International Fair. With the exception of the agricultural commodity exporting countries, that is, Australia, Canada, and the U.S.A., virtually all reported continuing payments problems. Australia, Denmark, Germany, Greece, Ireland, Italy, New Zealand, the Netherlands, Norway, and the United Kingdom reported new or continuing payments arrears on Iraqi debt.

Again, I enclose here at the end the memo from which I am quoting.

Concerns about Iraq's creditworthiness intensified when on August 4, 1989, FBI and Customs Service agents raided the Atlanta branch of BNL and uncovered \$4 billion in unauthorized loans to Iraq including \$900 million guaranteed by the CCC.

In order to better understand the CCC program for Iraq and its policy implications, let us take a look at the January 14, 1989, State Department cable that reported on a meeting between a representative of the Department of Agriculture and Mr. Hassan Ali, the Minister of Trade of Iraq, and the cable stated, and I enclose this also at the end of my presentation:

Minister Ali took the occasion of USDA visit to express his government's gratitude for the leading role the Department of Agriculture had played in developing United States-Iraq economic cooperation.

USDA staff, in turn, expressed pleasure with the smooth operation of the CCC program and noted United States readiness to expand cooperation in the agricultural field with Iraq.

□ 1340

In response to a request for additional information on the state of Iraqi finances, Mr. Ali stated:

The U.S. did not make such credit available because of Iraq's "tired brown eyes."

He went on the state that:

... U.S. laws and political constraints would not permit the availability of such credits if Iraq suffered from corruption, poor production, mismanagement of the credit

It made available serious bilateral political problems or doubts about its willingness to meet its full obligations.

Iraq was given the impression that it was an important partner of the United States and the CCC program was symbolic of that policy. In spite of Iraq's always dubious financial condition and continued corruption in its CCC program, the United States continues to expand cooperation in the agricultural field. By 1988 the CCC program for Iraq had grown to over \$1 billion, but the events of 1989 made the color of Iraq's eyes turn red.

Because of Iraq's deteriorating financial position and the BNL scandal, 1989 turned out to be the watershed year for the CCC program for Iraq. Despite everything I have mentioned, when he was elected President Bush placed a renewed emphasis on improving relations with Iraq. He believed, as spelled out in National Security Decision-26 (NSD-26), that the best way to improve relations with Iraq was through expanded trade and the CCC program offered the single largest boost to that strategy.

Now, remember, behind all of this you have the National Security Adviser, Scowcroft, and the Deputy Secretary of State, Eagleburger, all of whom came from Henry Kissinger's stable known as Kissinger and Associates, which incidentally has had more influence with foreign potentates and ambassadors coming over than even the State Department sometimes.

Now, these two gentlemen were integral parts of Kissinger and Associates. They were integral parts in the stimulation of trade with Iraq. So now they are ensconced in these mighty powerful positions, and naturally they are going to reflect a continuation of what their boss, Henry Kissinger, who no longer has an official title, but lurks in the penumbra of power and has for many years.

So naturally, these are advisers. Presidents must depend on advisers, and when Presidents are not too sensitive or too aware or too deep in their understanding of events, I think it is safe to say and fair to say that we have had some who have not, that the role and the voices of these individuals become extremely powerful. Of course, their dealing was that added leverage in dealing with Saddam Hussein would be obtained because of these goddies we were providing him.

The thing that undid it was the B&L scandal that originated and in fact as late as just months ago, last year in fact, the administration through the Attorney General was still trying to keep us from having hearings on it.

President Bush and his advisers thought that expanded trade would give the United States added leverage in dealing with Saddam Hussein. As events showed, that was a grave miscalculation. The undoing of that strategy was the BNL scandal and Iraq's deteriorating financial condition.

I will now illustrate how the BNL scandal affected United States-Iraq relations by using the 1989 National Advisory Council (NAC) decision to grant Iraq a \$1 billion in CCC credits. That decision also serves as a vivid example of how State Department and President Bush viewed the CCC program. First and foremost, as a foreign policy tool while delegating the issue of Iraq repaying billions in loans to secondary status.

Before embarking on that journey I will provide some background on the interagency process that determines how credit is allocated to foreign governments like Iraq.

NAC ORGANIZATION AND FUNCTIONS

The National Advisory Council on International Monetary and Financial Policies (NAC) is responsible for the policies and practices of agencies that make, or participate in making foreign loans such as the International Monetary Fund, the World Bank, Export-Import Bank and the USDA's Commodity Credit Corporation (CCC). In the case of CCC and Eximbank, the NAC seeks to assure that the credit extended by those entities is consistent with U.S. policies and objectives.

NAC MEMBERSHIP

The members of the NAC include the Secretary of the Treasury—chairman; Secretary of State; U.S. Trade Representative; Secretary of Commerce; Chairman of the Board of Governors of the Federal Reserve System; Chairman of the Board of the U.S. Export-Import Bank; and the Director of the International Development Cooperation Agency. These high-level decisionmakers rarely participate directly in NAC decisions. Instead, a committee of alternates at the Assistant Secretary level has been empowered to act for their principals.

Under the alternates level lies the day-to-day apparatus that performs the work of the NAC called the staff committee. The staff committee is composed of economists and other professionals from NAC member agencies. They are often joined by representatives of other agencies of the U.S. Government such as the Departments of Defense (DOD), the Department of Agriculture (USDA), and the Office of Management and Budget (OMB). The staff committee meets regularly or talks by phone to discuss CCC or Eximbank extensions of credit to foreign nations such as Iraq.

The NAC itself cannot override the decisions of the Eximbank and the CCC, but obviously in practical terms these agencies must heed advice of more powerful organizations such as the White House and the State Department.

On rare occasions a decision is so important that a NAC deputies committee meeting is called. The deputies committee is generally composed of the No. 2 person in each NAC agency. The question of whether to grant the \$1 billion in loans to Iraq eventually

was kicked up to the deputies committee.

THE FISCAL YEAR 1990 DECISION

Even though Iraq's financial condition had deteriorated steadily during 1989, the USDA, at the State Department's prodding, proposed a \$1 billion CCC Iraq program for fiscal year 1990. Because of concerns about the BNL affair and Iraq's financial problems, a NAC staff committee voted in August 1989 to defer consideration of the Iraqi program until a later date.

The CCC understood that it would be difficult to get the entire \$1 billion approved by the NAC, so in September 1989, it approached the NAC with a modified offer. CCC proposed an interim \$400 million in CCC credits for Iraq. An additional \$400 million was contemplated once Iraq was exonerated from responsibility for the BNL scandal. On October 4, 1989, the NAC unanimously approved that approach. That is when the trouble began—the NAC forgot that Iraq always wanted more not less.

Iraq considered the \$400 million offer for CCC credit an insult. A November State Department memo spells out the Iraqi position on the \$400 million offer. It states:

The Iraqis rejected a USDA offer of a \$400 million "interim" in early October because they believed so drastic a cut from the \$1.1 billion fiscal year 1990 program would be viewed as a United States vote of confidence in Iraqi debt policy.

The Iraqis were also worried that the United States would publicly announce its decision to limit Iraq to a \$400 million interim program because such a decision could severely affect the perception of their creditworthiness.

The Iraqis immediately began to pressure the State Department, United States Embassy in Baghdad, and the United States farm community for a larger CCC allocation. They also sought a meeting between Secretary Baker and Foreign Minister Aziz to discuss the CCC program.

October 6, 1989, Secretary of State Baker met with Iraqi Foreign Minister Tariq Aziz. The main topic of the meeting was United States-Iraq relations and how the United States handling of the BNL scandal was jeopardizing that relationship. Notes from the meeting report Foreign Minister Aziz as saying:

Finally, and most seriously, Aziz stated that lately there had been reports that "some American agencies" are trying to destabilize Iraq. The CCC program was being linked to the BNL Atlantic branch scandal of which Iraq had no part. The Minister made it clear that this was not a sign that the U.S. wanted improvement in relations. It is in fact a setback and the Government of Iraq (GOI) is very unhappy.

□ 1299

Mr. Aziz found a strong ally in Secretary Baker. A week after their meeting a cable from the U.S. Embassy in Baghdad reported:

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As a result of his conversation in Washington last week with Secretary Baker concerning the CCC credits, Foreign Minister Aht has high hopes that the Secretary will seek to break the current impasse in the US/OOI negotiations.

Secretary Baker not only intervened personally on behalf of Iraq, he put the whole weight of the State Department behind Iraq. Mr. Baker and other State Department officials repeatedly referred to NSD-36 which stated that "the President wished to improve relations with Iraq" as the justification for pressuring other agencies of the NAC into approving the \$1 billion CCC program for Iraq.

The State Department was intent on ignoring Iraq's poor financial condition. The agency was also intent on ignoring the ENL scandal despite the fact that the highest levels of the Iraqi Government were involved including the second most powerful man in Iraq—Saddam Hussein's son-in-law Rusein Kamil.

INTERVENTION LISTENS

In order to set the scene for the NAC consideration of the CCC program for Iraq, Secretary Baker wrote a letter to the Secretary of Agriculture, Clayton Yentler, and then called him personally to express his conviction that Iraq should be given the benefit of the doubt and granted the full \$1 billion CCC program for fiscal year 1990. The talking points for Mr. Baker's call to Mr. Yentler state:

On foreign policy grounds, we support a program of up to \$1 billion, released in tranches, with periodic compliance reviews. In subsequent, I hope we can get this important program back on track quickly.

Convincing the Department of Agriculture to support the allocation of the full \$1 billion to Iraq was the easy part. The next step was to convince the OMB and Treasury to drop their opposition to the \$1 billion program for Iraq. This job was left to Deputy Secretary of State, Lawrence Eagleburger.

To their credit, the Treasury Department and OMB were opposed to the \$1 billion program for Iraq based on Iraq's precarious financial condition and the smell of the ENL scandal. The Treasury Department had actually voted against the fiscal year 1990 program for Iraq because of creditworthiness concerns.

Iraq's shaky financial condition was not paramount on Mr. Eagleburger's mind. The talking points for Mr. Eagleburger's calls downplayed any such considerations. They state:

The Secretary has determined that policy considerations warrant support for a full \$1 billion program of CCC credit guarantees to Iraq. . . . The CCC program is crucially important to our bilateral relationship with Iraq.

Mr. Eagleburger topped off his efforts on behalf of Iraq by sending letters to OMB and Treasury. His efforts were crucial to eventually neutralizing OMB and Treasury opposition to the CCC program.

Finally, after much lobbying and back scratching, a November 3, 1989, meeting of the NAC alternates was held to consider the USDA's request for a new \$1 billion CCC program for Iraq. Apparently still concerned over what was about to occur, the Treasury Department and Federal Reserve members formally moved to block a decision at that level. At the Treasury Department's request, it was decided to kick the decision up to the next level—the NAC deputies committee.

An Internal State Department memo accused the OMB of instigating the Treasury and Federal Reserve and implied that OMB was taking its role as "the administration's watchdog against scandal" a bit too seriously.

Moving the decision on the Iraq program to the deputies committee level played right into the State Department's hands. Secretary Baker had already lobbied the Agriculture Department and Mr. Eagleburger had lobbied the Deputies at OMB and Treasury.

THE DEPUTIES MEETING

The NAC deputies meeting took place on November 8, 1989. Some of the more or less notable participants in the meeting were Robert Kimmitt, State Department; John Robeson, the No. 3 man at the Treasury Department; Steve Danmanky, the White House; Jack Farnell the No. 3 man at USDA, Federal Reserve Board Governor Edward Kelly; and William Dieffenberfer, the No. 3 man at OMB.

Mr. Robeson opened the meeting by stating that there were two issues that should be addressed with respect to the CCC program for Iraq: First, the questions of Iraq's creditworthiness, and second, the implications of the ENL scandal.

The State Department's Mr. Kimmitt opened by stating that his "comments reflected the views of Secretary Baker who believed that the CCC program in Iraq was crucial to the U.S. bilateral relationship with Iraq. He noted that in NSD-36 the President called for improvement of United States-Iraq relations and bilateral trade offered the best means to achieve that goal."

Other NAC participants indicated that they had reservations about the program, but they offered no fatal objections. The NAC voted to approve the \$1 billion for Iraq to be released in two \$500 million tranches. Several safeguards were added to ensure that the CCC program's integrity would remain intact.

My next floor report will continue with the events that occurred after the NAC decision of November 8, 1989. That statement will show that President Bush and the State Department continued to champion the cause of Iraq despite numerous warning signs that Saddam Hussein was out of control and the revelation that ENL provided over \$2 billion for a secret Iraqi technology procurement network which had responsibility for obtaining the technology necessary to build bal-

listic missiles and nuclear, chemical, and biological weapons. I will also discuss the issue of the pending \$350 million CCC payment to ENL.

CONCLUSIONS

At the NAC deputies meeting on November 8, 1989, the State Department's Robert Kimmitt invoked the heavy hand of President Bush by stating:

To abruptly terminate the CCC program in Iraq would clearly run counter to the President's intention and would further more, cause a deterioration in our relationship with the Iraqis.

Now I think that the American public and we in particular would find it hard to understand how deterioration of relations with such a country as Iraq would irreparably harm the United States national interest. The fact is that the miscalculations and the rather shifting, almost schizoid phrenic adoption of policies, if such can be called policies, led to a tragic denouement.

It ended up in the loss of tremendous loss of human life, over 200,000. Those are human beings, regardless. We reached the point where, incredibly, even our much publicized commanding general, on the eve of the skirmishes, pictured the Iraqis as sub-human beings. The result is still to be calculated.

Throughout the Muslim world, not just the Middle East but from one end to the other, we have engendered a tremendously deep hatred toward us. We are involved in something that we have not been disengaged as yet and will not be for the foreseeable future. But have we learned? No.

Once we stray from fundamentals, and this is what I always say and have always said on the committee, we cannot stray from basics except at our own risk.

Some time ago, I believe it was perhaps the second-to-last or the third-to-last speakership, Speaker O'Neill's regime, that the House suspended—and I did not realize it until it did not happen—the annual reading of the Farewell Message of President George Washington. It used to be the habit when I came, and I used to kind of marvel at the idea that that would be the case.

On the occasion, or on the Monday of the week that we used to celebrate George Washington's birthday, we would have the reading, even if there was no other business, we would have the reading of Washington's Farewell Address. That has been suspended. I am suggesting to our present Speaker that he reinstate that.

I think it was very well founded, more than just having a ritualistic reading, because it gave us basics that are still true today as they were in his time. It is a vastly radical, hardly perceived world in that day and time, from what we live in today, but he did say in the speech what I think is now

involving us, involved in this very tragic mistake, as it turned out to be.

Have we learned? No. As I said earlier, we are about to do the same with even Iran, which is still considered and certainly was during the time that this trade was fomented with Iraq, our real enemy, mostly because of the hostage taking and the like. But today it is more than ever because it has tremendous potential.

It is a non-Arabic country, but Muslim, and we must never forget that just 90 miles away from the Iraqi border is Russia. Along that Russian border is over 1 million Muslims. That is where Iran is directing its attention.

It now has probably the most substantial buildup of any in that area. Remember, it is non-Arabic as a nation, but what about the other part of the world? Same thing with respect to China. It seems that in the case of China our policymakers for some time have gone on the theory that maybe they can have a gentler, kinder kind of communism there. Of course, it is an equally profound error.

Ever since the factors that led to the 1972 Nixon visit, and even then by the time the Chinese permitted President Nixon and his entourage to go to China—I was the one that reported it, and I do not remember anybody else mentioning it—but we had to guarantee them a downpayment of \$10 million in gold, ostensibly to cover the cost of all that was involved in this tremendous entourage that President Nixon took.

But the reasons for the things that were done in 1972 no longer hold in China. Why? Because we have had at least three Secretaries of Defense, we have had two Presidents visit China, made commitments and receive deceptive assurances.

For instance, when 27 of our sailors died while patrolling the Persian Gulf and died as a result of a missile fired by, not Iran, but by Iraq, that missile was procured through China because we gave China, one of our Presidents, or Secretary of Defense, with great secrecy, provided China with the means to produce the so-called Silkworm missile. Then China, very much looking after its own national interests—and this is where I have been criticized and asked if I am an isolationist; I have said, of course, no, of course not, I never have been an isolationist. But I am a protectionist.

□ 1400

Dog-gone right. I am a protectionist of the national interest. Everybody in our Nation looks out for No. 1 first and foremost, and they are expected to. We do not expect the country to go against its own national interest. Why should we? So, why should we then expect any of the other nations to ask us to yield on matters that now have to do with the basic independence and freedom, financial and economic, and our standard of life, which is what is

at stake in the world today? But here was China selling to both sides also.

Mr. Speaker, I ask, "Why shouldn't they?" Even though our Presidents went over and came back—even Secretary Baker, as late as November 1991, came back and said, "Well, you know, the Chinese have given us assurance. They're not going to be selling any more of these armaments over to the Middle East," but the Chinese said, "Well, we will stop doing" what they denied just a year before.

But today where are we? Syria, whose President met with President Bush in Switzerland in 1986, when we were building up our expeditionary force, suddenly the Syrian leader becomes what? Less tyrannical? Less murderous than Saddam Hussein? No. But all of a sudden the enemy of our enemy is our friend, and it is this policy that is leading us constantly down a path that is detrimental to our national interest, and I think basically it is the disregard that our first President in his advice to us has given us, and I am going to quote:

That nation which indulges towards another an habitual hatred or an habitual suspicion is in some degree a slave to its affliction, either of which is sufficient to lead it astray from its duty and its interests.

I will leave it with that, however I include for the Record various and sundry items relating to the subject of my special order today.

Commerce/Customs Assessment of Iraq
Iraq will not be able to commit sufficient resources for foreign debt service over the next five years or longer.

The military shares a substantial share of Iraq resources.
Long-term program for enhanced regional political power.

All of all adult males are on active duty in the armed forces.
Large military hardware purchases: fighters, etc.

Costly high-tech military production projects.
Military will absorb output of new civilian industries.

The "civilian" government also absorbs considerable resources.
Large, costly intelligence services and informer networks.

Costly government bureaucracy central most industry.
"Privatization" efforts are minimal.

Costly consumer price subsidies—bidding farm products.
Costly prestige projects—Babylon and others.

The government fails to mobilize the private sector.
Military and government have first claim on resources.

Private business limited—by government—to small scale.
Government price controls constrain production.

Traders forced to operate outside government FX system.
State banking system discourages private savings, investment.

The government's additional resources will be insufficient.
Oil revenues remain constrained by OPEC negotiations.

New industrial civilian FX contribution likely small.

Non-oil products will not be permitted to "stand alone".
Massive agricultural development is far off.

Iraq will make timely debt payments only to "favored creditors".
Iraq's debt strategy is not likely to change.

Iraq only repays those who offer larger amounts of new ST credit.
Iraq attempts to force new money from creditors by defaulting, or threatening to default, on existing debt.

Iraq restructures—on a bilateral basis—debts owed creditors who are unwilling to commit new money.
Iraq will not go to the Paris Club or otherwise adopt "normal" debtor-creditor relations.

Export credit agencies seek to reverse Iraq's strategy.
Only ECOCG—backed by IMF Treasury—provides MT protest cover.

Other than the IMF ST cover to specific amounts of repayment, Iraq has no other ECOCG terms: pre-94 debt repaid first, post-94 debt restructured.
Political element to restructuring negotiations: Italy & Japan.

Iraq's strategy toward Eximbank:
Iraq seeks small MT program as a "foot-in-the door."

Iraq will seek much larger Exim programs thereafter.
Iraq using U.S. exporters to lobby for new credit.

Iraq will maintain ST payments while MT is an Exim program.
Exim seeks small Iraq "Favored Creditor" status as long as:

Exim commits to progressively larger lending programs.
Source: 1990 Eximbank.

FOR SECRETARY WASH DC.

TX AMEMBASSY Baghdad Immediate

Info: Gulf War Collective Immediate

Subject: Secretary's October 6 Meeting With

Iraq Foreign Minister Tariq Aziz

1. Secret—entire text.

2. Summary: On October 6 Secretary Baker met with Iraq Foreign Minister Tariq Aziz. Aziz emphasized his government's strong desire for the very best possible relationship with the United States, but said his government had received "signals" that this might not be the U.S. Government's attitude. He mentioned, (1) the negative remarks about Iraq intentions in the Gulf made to other governments by U.S. officials, (2) USG-placed obstacles to Iraqi efforts to rebuild its economy technology transfer, and (3) congressional actions against Iraq. He also said "some American senators" are trying to destabilize Iraq. Finally he complained about a USG decision to cut CCC credits for FY90 from over \$400 million to \$200 million. The Secretary assured the Foreign Minister of our desire for good relations with Iraq. At the same time, the Secretary confirmed U.S. concerns globally about the transfer of sensitive technology related to proliferation. He also assured that while the administration had opposed congressional moves to place sanctions on Iraq, the Congress had been influenced strongly by ODF's use of VW which did have a very negative impact. He asked for more details about alleged U.S. efforts to destabilize Iraq so that he could investigate it fully. Regarding CCC credits the Secretary said he understood the \$400 million in credits now offered by USG was an interim commitment. The Fed and Treasury are worried about Iraqi involvement in the

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Atlanta BNL bank scandal and what to do for containment on the full level of CCC credits until their investigation is completed. Asst said this was a banking problem and not one that involved the OOI. Asst made clear a solution needed to be found quickly. Iraq is particularly worried about the impact of this decision on its ability to meet food import requirements in 1992. The Secretary said he would look into the matter immediately. The two sides also discussed briefly the Middle East peace process and Lebanon. End summary.

3. The Secretary warmly welcomed Iraqi Foreign Minister Tariq Asst to the Department on October 6. We noted their inability to find a mutually acceptable time to meet in New York and said we appreciated Asst's willingness to come to Washington. The Secretary said the U.S. values its relationship with Iraq and wants to see it strengthened and broadened. Our dialogue on human rights will help. We also noted with pleasure Iraq's participation in CW conference. Regarding the Start claims, the Secretary welcomed Iraq's payment of wrongful death compensation and observed that this set the stage for early conclusion of the remaining claims. We asked his introductory remarks to again stress the U.S. desire for good relations saying there was all the potential to move the relationship in a positive direction.

4. Asst responded with warmth that we had good relations with Secretary Scuba and many other senior American officials. He said we had always conducted his conversations in a friendly and open manner and hoped we could continue to do so with the Secretary. It leads to much better understanding. The Secretary encouraged him to do so. Asst said we wanted to state clearly and unequivocally that Iraq wants good relations with the U.S. on the basis of mutual respect and understanding. He said he wanted to understand that while this had been stated in times of war when diplomatic relations were restored, he was saying it now after a ceasefire had brought the active fighting in the war to an end. We strongly believe he said, that good relations between us is in the best interests of the U.S. and of the region.

5. Asst continued that he greatly appreciated the Secretary's assessment of bilateral relations but frankly speaking in the spirit of friendship, Iraq has not seen "enough improvement" in the relationship since the ceasefire. In fact Iraq had received a number of signals which were rather disturbing. We listed four: (1) After the ceasefire the OOI got a number of reports from several capitals that senior U.S. diplomats were approaching officials in the Gulf ruling families and fear regarding Iraqi intentions in the region. Asst said this disturbed the OOI greatly because during the war we had dismissed the Gulf region in a frank manner. Iraq has said clearly that it wants to maintain the whole region intact—including the individual countries—and that it has no bad intentions against any of them. He stressed that Iraq's objective was and is good relations with them all, particularly Saudi Arabia and Kuwait. Hence, he said the OOI is perplexed and concerned about U.S. motivations.

6. Secondly, Asst said the U.S. seemed to have a negative approach to Iraqi post-war efforts to develop its industry and technological base. Asst emphasized that the OOI had clearly stated that its current goals and objectives were to reconstruct and reform the economy. Our desire, he said, is to develop the country for our people—to raise their standard of living. Emphasizing this massive effort was being misinterpreted, Asst declared that all this was being done for Iraq

and her people. No objective directed against any other country in the region lay behind Iraqi development activities. Asst then complained of a propaganda campaign against Iraq in the U.S.—particularly by the Congress. He noted congressional moves to institute economic and political sanctions.

7. Finally, and most seriously, Asst stated that, lately there had been reports that "some American agencies" are trying to destabilize Iraq. He said he had no details and had heard only the reports just as he was leaving Baghdad. He said he felt it was important to mention this to the Secretary. The Secretary indicated his surprise at such reports and said he would like more details as quickly as possible so he could look into it immediately. Asst undertook to try to get more details.

8. Asst closed with a final point on U.S.-Iraqi commercial relations. He noted that up to now this had been a very positive aspect of our bilateral relationship. The OOI, he said, had allocated CCC credits of over \$1 billion in FY89, making the U.S. Iraq's major supplier of agricultural products. He told the Secretary that he had just learned from the Iraqi agricultural team, now in Washington, that Iraq was on a program of similar size for FY90, that the U.S. was prepared to agree to only \$60 million in credits at this time. The CCC program was being linked to the BNL Atlanta branch scandal of which Iraq had no part. The minister made it clear this was not a sign that the U.S. wanted improvement in relations. It is in fact a setback and OOI is very unhappy.

9. The Secretary said he wished to respond to the minister's points. He said he heard the desire for better relations and that was the U.S. objective as well. He asked Asst to note that the U.S. had been in the forefront in focusing on the POW repatriation issue at the UNSC during the meeting on reversing UNIDMOG's mandate. As to efforts to destabilize Iraq, the Secretary reported that our desire is to improve relations with Iraq and he urged Asst to give him further details as soon as possible. Regarding technology, the Secretary admitted the U.S. does have concerns about proliferation, but they are world wide concerns. He suggested that we work together on specific requests so the U.S. can understand Iraqi needs and objectives and Iraq can hear what concerns us. Regarding Asst's point on congressional criticism, the Secretary noted that the administration never supported sanctions on Iraq and that he personally had so testified. The Secretary added that congressional actions were limited to Iraq use of CW during the war. Our position continues to be that we need to look forward, not backward.

10. Turning to CCC credits, the Secretary said he was aware that a problem existed. It was his understanding that the DOLS \$60 million which the OOI was now ready to approve is an interim allotment. The balance of the program was being held pending further investigations into the BNL banking scandal. He noted Iraq had received about \$2.5 billion out of DOLS 4 billion of the unauthorized loans. The Fed and Treasury, he explained, want some restraint in further credits to Iraq until this banking problem is more thoroughly investigated. Asst defended the OOI, arguing that they were not involved in any illegal actions. If the bank had willing to make loans under such good terms, any customer would have said it was the bank not the customer who had the problem. Asst said he had met with the Italian Minister of Finance who said Iraq was not involved. If the Government of Italy is not taking action against Iraq, it is strange that the U.S. is. Iraq, he said, was always

punctual with its payments to the U.S. He continued that Iraq was relying on U.S. cooperation in a number of areas and such actions to restrict programs called into question whether the U.S. would be a reliable trading partner. Food was a particularly explosive area because the Government must feed its people. We said the Iraqi delegation was very concerned that failure to agree to the full program now would force Iraq to search immediately for alternative suppliers and such suppliers may not be available. U.S. actions will sour relations, he concluded.

11. The Secretary asked if OOI is cooperating with the Fed investigation, indicating this was important to do. Acting Assistant Secretary Conroy noted there were some concerns that there may have been some wrongdoing traceable to Iraqi officials. Asst said that Iraqi Central Bank Governor and Minister of Finance had been in Washington, met with U.S. officials, and were told the OOI was not involved. If Iraqi officials were implicated, the OOI wanted to know immediately. He said the OOI was investigating out corruption and said OOI would surely act on any information available to it. When the Secretary asked if OOI would make available any official implicated in the affair, he said he did not know. It would depend on the information. Asst again repeated the urgency of solving this quickly. The Secretary said he wanted to find a way to solve it and the OOI may need assurances from OOI that it will aid in the investigation. He assured Asst that we would immediately look into what could be done and let him know what other U.S. agencies might need from OOI.

12. The Secretary said he had several subjects that he wished to raise. On the search for peace in the Middle East, we asked Iraq to consider supporting the Egyptian ten points. The Secretary said the U.S. is working hard to keep the peace process going. Both Egypt and Jordan are partners with Iraq, had been very helpful. Iraq's endorsement of the Egyptian ten points would be a big help. Asst said Egypt had discussed the ten points with Iraq and Amrati, too, had recently been in Baghdad. The OOI, he said, was pleased and supported the joint efforts by Egypt and the PLO. Asst noted that Iraqi support was well known in the region. It was, however, Iraqi policy to refrain from public statements on the peace process. A policy Iraq would maintain. Talk, particularly from parties not directly involved, may complicate the issue.

13. The Secretary raised Lebanon saying we strongly supported the Arab League tripartite committee effort and understood Iraq did too. He said he wanted to see all foreign forces leave Lebanon. We have supported a role for General Aoun in the process and hope he will stay committed to the AL effort. The Secretary said we had hoped that Iraq would too. We are encouraged, he concluded, by the initial reports coming out of Taif. Asst affirmed that Iraq does indeed support the AL effort noting that when they had asked Iraq to stop sending arms to Lebanon Iraq had agreed. Iraq had advised Aoun to support the meeting in Taif. Asst stressed the historic nature of the meeting—the first time Lebanese members of parliament had been able to discuss their problems under an Arab League umbrella and not under Syrian domination. Syria, after all, was a party in the Lebanese dispute. Asst also said Iraq had encouraged the Christians to accept reform (the 50/50 formula). These had changed and the old systems are no longer valid, we said. The question of the Syrian presence, however, had to be faced and resolved. A new government

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and new president could not function under Syrian domination. They would be hostages—just as Shalim Al-Rum and some other Lebanese officials are now in West Beirut. At a minimum, Azis argued, there had to be a free environment in the capital. The Syrians, he said, do not have to withdraw immediately and President Hafez had told Assad this in Damascus. Azis concluded that Saddam Hussein had, at King Fahd's request, sent a message to Assad October 8 urging him to cooperate with the AL committee and Saudi Arabia to achieve a successful outcome of the Talf meeting. Azis said Iraq had great confidence in King Fahd and would give him all support possible.

14. Participants: Iraqi Foreign Minister Talf Azis, Iraqi appointed Ambassador in Washington, Mohamed Sadig Al-Maskat, MPA International Organizations Director Riyadh Al-Dayst, and Azis Chief Du Cabinet Kamal Issa. The Secretary, under Secretary Bartholomew, Assistant Secretary Tutwiler, Policy Planning Director Ross, Acting IEA Assistant Secretary Cory, and IEA Deputy Assistant Secretary Edward W. Ohman, Jr. (notemaker) comprised the U.S. side. Baker.

U.S. DEPARTMENT OF STATE
Washington, DC, October 12, 1982.

MEMORANDUM FOR THE SECRETARY

Subject: CCC Credits for Iraq.

I have looked into the problems concerning UEDA's Commodity Credit Corporation (CCC) program for Iraq. There are three distinct but related problem areas:

1. Creditworthiness.
2. Allegations of corruption in the operation of the Iraqi CCC program itself.
3. The Italian Banca Nazionale del Lavoro (BNL) agency office scandal in Atlanta.

CREDITWORTHINESS

The Fed, Treasury and EXIM have all been concerned about Iraq's credit record for several years. During the war years the Iraqi became notoriously bad creditors defaulting or unilaterally rescheduling billions of dollars of official and commercial credit and refusing to even discuss the matter in the Paris and London Clubs. Because of the extenuating circumstances and the country's substantial economic potential, not to mention the opportunity to profit from the war recovery program, this has never been a big stumbling bloc for Iraq's other major trading partners like Japan, France and West Germany.

Iraq's repayment record on the CCC program has been good. There is, however, some concern about the large amount of credit outstanding (about \$1.7 billion) and heavy debt service (some \$800 million a year), especially since Iraq already accounts for about 20 percent of the total CCC program. Despite these concerns by Treasury and the Fed, UEDA has been disposed to continue the program at the \$1 billion a year level, in part, not to unnecessarily anger the Iraqi and trigger a default that could jeopardize the whole CCC program.

Creditworthiness, therefore, while a legitimate concern, is not a major driving factor for reducing the Iraqi CCC program. All other things being equal, UEDA would continue on at the \$1 billion plus level indefinitely and the Fed and Treasury would probably acquiesce.

EXIM has refused to provide medium-term credit to Iraq until they agree to multi-debt rescheduling of official debt. The Bank's \$200 million insurance program has also been "suspended" until the \$6.3 million is arrears is repaid.

CORRUPTION

Several investigations (IRS, DOD, UEDA, FBI) reportedly are looking to allegations of

widespread and blatant "irregularities" in the CCC program for Iraq. Hard information is difficult to obtain, but apparently there has been substantial overpricing of some commodities (double and triple wholesale prices), diversion and trans-shipment of commodities outside Iraq and financing of non-U.S. origin goods. There is even one report that the Iraqis used the proceeds for arms purchases.

None of this, of course, has yet to be proven. Nor is it clear how long these investigations will take and whether or not indictments will eventually be handed down. And even if they are, it may never be clear how much, if any, Iraqi official complicity there was.

BANCA NAZIONALE DEL LAVORO (BNL)

The unfolding BNL scandal is directly involved with the Iraqi CCC program and cannot be separated from it. Of the \$4 billion of authorized loans involved, about \$1 billion were CCC guaranteed. It's trying to obtain the details from the U.S. Attorney in Atlanta. Treasury and the Fed, however, find it hard to believe that Iraqi Central Bank officials and others were not aware of what was going on given the apparent scale of loans, kickbacks, deeply discounted interest rates and other gross irregularities. Indictments of U.S. citizens are expected by the end of this year, although no legal moves against Iraqi officials are contemplated at this point.

It is also worth noting the president of Iraq's central bank and the finance minister reportedly have been arrested for unknown reasons in the past several days.

RESPONSE TO ISSUES

Given the above apparent problems with the Iraqi CCC program, it would seem wise to proceed with caution and prudence. We should not jump to conclusions before all the facts are known; nor should we continue with business-as-usual.

UEDA, acting against the advice of the Fed and Treasury, but with the support of the other NAC members (including Saudi), recently approved a "first tranche" of \$400 million in FY 1984 CCC credits for Iraq—about one-third of the planned annual program or enough to keep the pipeline open until January at about the same volume as last year. They have told the Iraqi that approval of additional credits will depend on the outcome of the ongoing investigations into the BNL scandal and charges of corruption in the operation of the CCC program.

The Iraqi are taking an "all or nothing" approach, insisting that they have done nothing wrong and will be hurt badly if the annual CCC program is substantially cut. Iraq, in fact, is a consistent net importer of food and other commodities and undoubtedly benefits considerably by the CCC program. Certain painful adjustments ~~must~~ undoubtedly have to be made at a time when the government is hard-pressed for foreign exchange.

On balance, I think the UEDA approach is prudent and proper under the circumstances. No options are foreclosed and, at least until the pipeline dries up, the Iraqi are not being prejudged until the facts are known and acted upon by U.S. authorities.

In the meantime, this situation should be kept under close policy review because the stakes are big. We need export markets, and Iraq is a large potential market and as the war-induced imports are replaced by commercial purchases, this market will undoubtedly increase in the next decade.

*Baker

Once the facts are all known, it may be possible to correct the problem by building in safeguards against future possible abuses and then resuming the Iraqi CCC program at previous levels. We will want, in any event, to avoid taking punitive action against the whole Iraqi government and population for the sins of some corrupt officials if they are brought to justice.

SUMMARY

Washington, October 27, 1982.

Mr. SECRETARY: When this issue first emerged, — office was screaming caution on our involvement in this CCC credits with Iraq. Ten different U.S. Government agencies were investigating various aspects of potential fraud in Iraq's past CCC program, and no one really knew just how far and deep the corruption went.

I was then reluctant to advise you to proceed with this matter until we had an opportunity to dig deeper into the potential corruption, and until the Department of Agriculture had an opportunity to follow through on my suggestion to develop a new CCC program with Iraq that would include an anti-corruption element.

I gather that a modified CCC program with Iraq is devised. In the meantime the top CCC ministerial team associated with the CCC program has been removed. You also now have a formal recommendation from — that we proceed on this matter.

Assuming that UEDA finalizes a modified CCC program, I recommend that you assert to Yettler the political and economic reasons for going forward with this whole program, by tranche, to the \$1 billion level. If we are comfortable with a \$400 million exposure, based on our new anti-corruption safeguards, we ought to be comfortable with a billion dollar program.

(Confidential)

U.S. DEPARTMENT OF STATE
Washington, DC, November 2, 1982.

MEMORANDUM

To: F—Mr. Kisseloff.

From:

Subject: NAC Deputies Meeting on the CCC Program for Iraq November 2, 1982, at Treasury, 6000.

I. KEY POINTS

In early October, Iraq rejected UEDA's offer of an "interim" FY79 program of \$400 million in Commodity Credit Corporation (CCC) credit guarantee. At the urging of Secretary Baker, UEDA has proposed a full, billion-dollar CCC program for Iraq with built-in safeguards to ensure Iraqi compliance with CCC obligations and cooperation with the U.S. Attorney's investigation of the Atlanta branch of the Italian-owned Banca Nazionale del Lavoro (BNL). On November 2 the National Advisory Council (NAC) declined to make a recommendation on the new UEDA proposal, preferring instead to refer the decision to the policy level.

Our goal for the NAC Deputies meeting is to obtain NAC approval for UEDA's full billion-dollar CCC program, with safeguards, for Iraq. Rapid action is crucial, because Iraq has already begun to explore alternate sources of supply.

II. INTERAGENCY POSITIONS

The Federal Reserve and Treasury, reflecting the views of OMB (which is not in the NAC), oppose a CCC program for Iraq. They note that Iraq has failed to make payments on some of its \$30-40 billion debt to non-Arab creditors. They also support OMB's contention that allegations of Iraqi wrongdoing in the BNL case, though not backed by evidence at this time, could even-

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fully embarrass the Administration. USDA responded to OMB's specific concerns on SWL, but OMB (and Fed and Treasury) claimed to have continued, unarticulated "concerns" regarding the SWL. OMB's concern stems from its post-SUDS vetoing role. It is not clear whether a meeting between OMB and the USDA on 11/7 allayed OMB's concerns.

State strongly backed USDA in the November 3 NAC. The other NAC members—AID, USIA, Commerce and EXIM—did not speak at the meeting. USIA reportedly is leaning against USDA's proposal. However, AID can generally be depended upon to follow State's lead and EXIM has privately indicated support, since it has its own short-term program of credit guarantees. The Commerce representative will support the State position if the argument is made on foreign policy grounds.

XII. PROPOSED STRATEGY

The Deputy Secretary has laid the groundwork by calling Deputy Secretary Robson at Treasury to urge acceptance of the full program, and he plans a similar call to OMB. USDA briefed OMB November 6, emphasizing that the U.S. Attorney does not intend to indict Iraqi officials in the SWL case on the basis of the evidence to date. You should strongly urge, on policy and commercial grounds, that the NAC Deputies approve the full package, with safeguards, submitted by USDA.

(Confidential)

TALKING POINTS FOR NAC DEPUTIES
Memorandum, November 6, 1980

The CCC program is crucially important to our bilateral relationship with Iraq. State strongly supports immediate action by the NAC Deputies to approve the new program proposed by USDA.

In NSD-64, the President mandated that we seek to improve and expand our relationship with Iraq. At present, trade is central to that relationship and credits guaranteed by CCC finance a large part of that trade. (In response to the point that Iraq cannot service existing debt and that we are dipping ourselves into a hole by providing new credits.)

Iraq's record of repayment to us is good, and the Iraqis have told us we have priority over other creditors. Iraq has oil reserves second only to Saudi Arabia. In addition, we should not take action that would harm U.S. exporters.

(In response to the point that we should not go forward with a new program in light of the SWL scandal.)

On the basis of the evidence we have there is no reason to dangle future programs. We have a pledge of Iraqi cooperation with an investigation into the SWL issue. In response to the Secretary's request to the Iraqi Foreign Minister, the investigating agency has put any specific questions to Iraq.

Past problems are a reason to make sure there are adequate safeguards in a new program—not a reason to stop the program in its tracks to the detriment of our foreign policy interests.

We support a program of up to one billion, released in tranches, with periodic compliance reviews. These safeguards should protect us if problems are uncovered in the future and help ensure Iraqi cooperation in the investigation.

I urge immediate approval of the full program of CCC credit guarantees, with safeguards, proposed by USDA for Iraq.

U.S. DEPARTMENT OF STATE,
Washington, DC, November 6, 1980.
To: The Acting Secretary—Eagleburger.
Subject: CCC Program for Iraq.

ISSUE FOR DECISION

How to expedite approval of a full CCC program for Iraq.

ESSENTIAL FACTORS

The Secretary has determined that policy considerations warrant support for a full \$1 billion program of Commodity Credit Corporation (CCC) credit guarantees for Iraq, provided the program is protected by safeguards, such as disbursement in tranches, that would ensure Iraqi compliance with CCC obligations and cooperation with the investigation of the Athens branch of the Italian-owned Banco Nazionale del Lavoro (BNL). The Iraqis rejected a USDA offer of a \$400 million "interim" in early October because they believed so drastic a cut from the \$1.1 billion FY80 program would be widely viewed as a U.S. vote of no confidence in Iraqi debt policy. The Secretary has asked the Secretary of Treasury October 31 to urge that USDA propose a full program with adequate safeguards (Tab A).

USDA presented its new proposal for a full, billion-dollar program to the National Advisory Council (NAC) on November 3 (Tab B for membership and function of the NAC). The NAC declined to make a recommendation on the USDA proposal, citing instead, at Treasury's request, to bump the decision up to the political level: an Alternator (Assistant Secretary level) meeting is to take place this week. Treasury and the Fed formally moved to block a decision in the NAC, acting at the behest of OMB. OMB, though not a member of the NAC, led the opposition to USDA's proposal at the November 3 meeting. Noting that OMB is administration watchdog against scandal, OMB complained of continued uncertainty regarding the Iraqi role in the SWL affair and that the Iraq CCC program was too big, given Iraq's recent failure to make timely payments on debt to some creditors. (OMB's real problem may be less with Iraq per se than with some serious accountability questions regarding the entire CCC program.) USDA responded to OMB, noting that the legal situation with regard to SWL remained unchanged, that there were no current plans to indict Iraqi officials, and that Iraq's record on repayment of CCC-guaranteed credits was spotless (Tab A). The NAC members, however, were content to kick the problem to a higher level. Only State spoke out in support of the USDA proposal.

Time is a factor. USDA has yet to register a single purchase by Iraq from U.S. commodity suppliers in FY79, and the Iraqis have begun to explore alternate sources of supply. A significant potential market for U.S. exporters is therefore at risk—USDA wants an Alternator meeting as soon as possible, and it may take place as early as the afternoon of November 1.

RECOMMENDATION

That you telephone Treasury and OMB and urge that an Alternator meeting take place as soon as possible to approve USDA's proposed full program of CCC credit guarantees, with safeguards, for Iraq.

U.S. DEPARTMENT OF STATE,
Washington, DC, November 6, 1980.
To: The Acting Secretary.

Subject: Letter to Treasury Deputy Secretary Robson on a CCC Program for Iraq.

In your conversation earlier today, Department of the Treasury Deputy Secretary John Robson asked that you send him a letter outlining the policy reasons for which State strongly backed USDA's proposal for

a full, billion-dollar program of Commodity Credit Corporation (CCC) credit guarantees, with safeguards, for Iraq. Attached is a letter for your signature that outlines these policy considerations. It essentially follows the talking points provided for your telephone conversation with Mr. Robson.

RECOMMENDATION

That you sign the attached letter to Deputy Secretary Robson.

Attachment—Proposed letter to Deputy Secretary Robson.

DEPARTMENT OF STATE

Washington, DC, November 6, 1980.
Hon. JOHN E. ROSSON,
Deputy Secretary of the Treasury,
Washington, DC.

Dear John: Further to our discussion, on foreign policy grounds we support the Department of Agriculture's proposal for a full, billion-dollar program of Commodity Credit Corporation CCM-102 export credit guarantees in FY 80, with adequate safeguards, for Iraq.

In addition to the near-term benefits for agricultural sales, the CCC program is important to our efforts to improve and expand our relationship with Iraq, as ordered by the President in NSD-38. Iraq is a major power in a part of the world which is of vital importance to the United States. Our ability to influence Iraqi behavior in areas from Lebanon to the Middle East, peace process to missile proliferation is enhanced by expanded trade. Also, to realize Iraq's enormous potential as a market for U.S. goods and services, we must not permit our displacement as a major trading partner.

With regard to the real concerns which arise from the investigation into the operations of the Athens branch of the Banco Nazionale del Lavoro, we have received from the Government of Iraq a pledge of cooperation. Our intention is to hold Iraq to this commitment and to work with the Department of Agriculture to ensure that the problems with the program in the past are fully resolved in a new program. The safeguards proposed by USDA, including disbursement of the CCC guarantees in tranches, buttress the program and merit our backing.

I appreciate your support in this connection.

Sincerely,

LAWRENCE E. EAGLEBURGER,
Acting Secretary.

U.S. DEPARTMENT OF STATE,

Washington, DC, October 30, 1982.

To: The Secretary.
Subject: The Iraqi CCC Program.

ISSUE FOR DECISION

Whether to push for a full CCC program for Iraq.

ESSENTIAL FACTORS

Over the last five years USDA's Commodity Credit Corporation (CCC) has guaranteed some \$4 billion in loans for U.S. agricultural exports to Iraq under its CCM program, which Iraq so far has repaid on schedule. This year, concern over possible Iraqi involvement in the scandal in the Athens branch of Italy's Banco Nazionale del Lavoro (BNL) caused USDA to withdraw its first, billion-dollar offer for FY 80 and put forward instead an "interim" program for \$400 million. The Iraqis, believing so large a reduction would be widely viewed as a U.S. vote of no-confidence in their economy, rejected the \$400 million. They hope we will come back offering the full program but also have begun to hedge their bet by looking into other sources of supply. Turkey and

raised the issue with you on October 6, and you promised to look into it personally.

Earlier this month, the President signed NSD-24, mandating pursuit of improved economic and political ties with Iraq. Since last year's cease-fire in the Gulf War, trade has become the central factor in this relationship. Iraq is now our sixth largest customer for agricultural commodities, and the U.S. is Iraq's largest supplier of non-military goods. Iraq has signalled the importance it places on the relationship by giving first priority to repaying CCC-guaranteed loans at a time when it faces severe financial difficulties. (Treasury and the Fed cite these difficulties—Iraq has failed to make some payments on its \$30-40 billion debt to non-Arab creditors—in opposing any FY-90 CCC program for Iraq.) Our ability to influence Iraqi policies in areas important to us, from Lebanon to the Middle East peace process, will be heavily influenced by the outcome of the CCC negotiations.

USDA has looked into the BNL investigation and "... has spoken with USDA and independently with the U.S. attorney's office in Atlanta. ... believes the investigation is largely focused on widespread, systematic banking fraud by persons working for BNL or under consulting relationships with BNL. It may also involve several high Iraqi officials, though this is unclear. USDA, which has come under pressure from U.S. exporters, is prepared to reopen talks with Iraq, but leans toward a partial offer. We doubt the Iraqi would accept. This, unless it includes a U.S. commitment to complete the program early next year. In view of the evidence available, ... believes that, to wait off a FY 90 CCC program from the BNL investigation, it is sufficient to extend Iraq's promise to cooperate in the investigation into past practices and to cooperate with USDA in establishing monitoring procedures and safeguards for future deliveries. The CCC contract could be discussed as a full program but include built-in, periodic review and related disbursement in tranches to ensure Iraqi compliance with CCC obligations and cooperation with the BNL investigation. In this regard, Terie Ash responded positively to your message of October 23 and—in an unprecedented step for Iraq—promised Ambassador Glavin full cooperation in the BNL investigation. To date, no investigating agency has asked Iraq for help.

DISCUSSION OF OTHERS

There is no point in going back to the Iraqis with a partial program they have already rejected, especially when it seems clear they would accept review and other reasonable safeguards. Offering a program of up to \$1 billion would strengthen relations with Iraq, in line with NSD-24, and help U.S. exporters. ... favor. ... first instinct is to give USDA leeway in negotiations, but ... supports on commercial grounds a program with safeguards, made available in tranches, that could go up to the full amount.

TELEPHONICALLY

That you telephone Clayton Twiss to urge that we go forward rapidly with a CCC program, with safeguards and to be made available in tranches, that could go up to the full \$1 billion, provided the review process turns up no evidence of Iraqi wrongdoing. Talking points attached.

TAKING POINTS

The CCC program is crucially important to our bilateral relationship with Iraq. We strongly support your effort to reinstitute it.

Obviously we should not go forward with the program if we have substantial evidence

of a pattern of serious violations of U.S. law by high-ranking Iraqi officials. Our information about the investigation indicates that the prosecutor does not now intend to indict Iraqi officials.

On foreign policy grounds, we support a program of up to one billion, released in tranches, with periodic compliance reviews.

Given the allegations, we believe safeguards should be built in to ensure the alleged problems do not recur.

The Iraqi Foreign Minister, with whom I talked, has now pledged Iraq's cooperation with the investigation.

My legal adviser, Abe Soler, is prepared to work with USDA's lawyers to secure Iraqi cooperation in developing adequate safeguards for the Iraq CCC program.

With safeguards, I hope we can get this important program back on track quickly.

FUNCTION AND COMPOSITION OF THE NATIONAL ADVISORY COUNCIL

The National Advisory Council (NAC) was established by statutory authority to advise the President on general policy directives for the International Monetary Fund, the multilateral development banks, the Export-Import Bank and other agencies that participate in making foreign loans or engage in foreign financial, exchange or monetary transactions. It is composed of the Secretary of the Treasury, who is chairman of the Council; the Assistant to the President for Economic Affairs, who is Deputy Chairman; the Secretary of State; the U.S. Trade Representative; the Secretary of Commerce; the Chairman of the Board of Governors of the Federal Reserve System; the Chairman of the International Development Cooperative Agency; and the President of the Export-Import Bank. By Executive Order, the President has designated to the Secretary of the Treasury most of the functions and responsibilities conferred on him in the setting up of the NAC.

In practice, the NAC meets weekly at the working level and generally makes its recommendations on the basis of a majority vote of the seven members routinely in attendance (Treasury, State, the Fed, AID, USIA, Commerce and EXIMB). In cases in which the NAC cannot or prefers not to make a decision, or on the strong request of one of its members, consideration may be moved up to the policy level through the convening of an NAC Alternates Meeting.

TAKING POINTS FOR CALLS TO TREASURY AND USDA

The CCC program is crucially important to our bilateral relationship with Iraq. State strongly supports action by the Alternates Meeting to approve the new program proposed by USDA.

We realize that Iraq has had problems paying its debts recently. However, the Iraqi economy survived the war in surprisingly good shape, and Iraq sits atop immense oil reserves. Its record on repayment of CCC-guaranteed loans is spotless.

Obviously, we should not go forward with the program if we have substantial evidence of a pattern of serious violations of U.S. law by high-ranking Iraqi officials. However, the most recent available information about the BNL investigation indicates that the prosecutor does not now intend to indict Iraqi officials.

On foreign policy grounds, we support a program of up to one billion, released in tranches, with periodic compliance reviews. These safeguards should protect us if problems are uncovered in the future and help ensure Iraqi cooperation in the investigation.

Given the allegations, we believe safeguards should be built in to ensure the alleged problems do not recur.

The Iraqi Foreign Minister has promised the Secretary Iraqi cooperation with the BNL investigation.

With safeguards in place, we can get this important program back on track.

I urge that the NAC Alternates Meeting be convened as soon as possible to approve the full program of CCC credit guarantee, with safeguards, proposed by USDA for Iraq.

NATIONAL ADVISORY COUNCIL DERIVINGS MINUTES, NOVEMBER 8, 1989

Treasury representative opened the meeting by stating that there were two issues that should be addressed with respect to the proposed extension of new CCC guarantees to Iraq in FY 1990: (1) the question of Iraqi creditworthiness and (2) the implications of the Banca Mediana del Lavoro (BNL) investigation and the uncertainties it created for the proposed program for Iraq. He stated that the proposed FY 1990 program should be evaluated, first, on the basis of the agencies' judgment that the 1990 program was a responsible action from a programmatic standpoint, and, second, from the standpoint of having the program to go to a hostile Congressional committee or the media if a worst case scenario involving criminal conduct in connection with the program on the part of banks, exporters, or the Iraqi—came about. He indicated that this possible worst case scenario should be weighed against the agricultural, trade and foreign policy considerations involved in a decision on whether to proceed with the program. He then referred the meeting participants to two background papers prepared by Agriculture which outlined (1) the status of the BNL investigation and (2) a country risk analysis of Iraq, and asked Agriculture for his comments.

Agriculture representative noted that the BNL investigation had, thus far, resulted only in allegations of violations and that the Department of Agriculture representative had advised the Department in writing that there was not an evidentiary basis for withholding approval of a new CCC transaction with Iraq. Furthermore, he said, many of these alleged violations were internal BNL bank matters not associated with the management of the QSM program for Iraq. He added that while eventually it might be proven that certain BNL bank officers had been engaged in violations of the banking laws, such possible violations would not necessarily implicate Iraqi officials or others directly connected with the CCC program. These possibilities had to be weighed against the value of one billion dollars in export sales to a country, he noted, that accounted for 30 percent of all U.S. rice exports and was the tenth largest U.S. agricultural export market. He said that in his view the benefits of approving the program far exceeded the risks.

The Department of Agriculture continued by noting that Iraq normally entered the market at that time of the year. He added that the United States was already five weeks late in its export credit negotiations with Iraq, and, accordingly, there was a risk of our losing the market for our exports.

As to a worst case scenario, Agriculture representative said that his position would be that, based on all available evidence, the decision to go ahead with the QSM program was appropriate and correct. He stated that in this country innocence is assumed until proven otherwise and it was therefore improper to position the Iraqi for unwarranted allegations. Noting that the one billion

March 2, 1992

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deficit program was to be offered in two tranches, he suggested that if wrongdoing on the Iraqi part were proven, the unused portion of the first tranche could be withdrawn and the second tranche not released. He summarized by noting that had to make immediate buying decisions, and that third parties were willing to fill those agricultural needs at the expense of U.S. exporters. He concluded that there was a strong need to move ahead expeditiously with a FY 1990 OGM program for Iraq.

Department of State representative stated that his comments reflected the views of State, who believed that the OGM program in Iraq was crucial to the U.S. bilateral relationship with Iraq. He noted that in "National Security Decision 34" the President had called for improvement of the U.S. relationship with Iraq, and bilateral trade expansion offered a good means to achieve that end. He noted that Iraq was key to the achievement of our objectives in the Middle East, the Gulf, and Lebanon. To abruptly terminate the OGM program in Iraq would, he said, clearly run counter to the President's intentions and would, furthermore, cause a deterioration in our relationship with the Iraqis. Any such deterioration, he contended, would create difficulties in ongoing discussions on other issues, e.g., the Middle East peace process, human rights, and proliferation of missile and chemical weapons. He noted that Treasury had called to express its support for an ongoing OGM program in Iraq. He also noted that the Iraqi Foreign Minister had given assurances that Iraq would cooperate fully with the investigation. Finally, he stated that, despite possible future revelations, overwhelming foreign policy considerations led him to urge support of the proposal, based on information available at that time.

OMB representative said that, while he was aware that OMB was not a voting member of the MAC, his agency's mandate to oversee the management of Government programs had led him to request an inter-agency review of the OGM-Iraq program. He explained Agri for bringing a potential problem to the attention of OMB, stated that he was satisfied that the allegations had been taken seriously, and indicated that he did not want to express an opinion on the issue. Noting that the decision on approval of the program would involve a balancing of risks, he expressed confidence that the eventual outcome would be prudent and correct.

Department of Commerce representative, noting Iraq's large external debt and questions surrounding its creditworthiness, viewed an uncertainty with the proposed program. However, noting the foreign policy concerns of State and the large export market that Iraq represented, he said that Commerce did not want to obstruct the proposal. In response to a question from Treasury, he said that his agency was not opposed to the program but felt that tracking and other safeguards were necessary.

Eximbank representative said that he viewed the MAC as a forum for consideration of political, not country creditworthiness, issues. He noted Eximbank had supported the CCC on its Iraq proposal in the past and would do so at this meeting. He also noted that Eximbank was currently open in Iraq with a short-term \$300 million revolving line of credit. The Iraqis, he said, were currently delinquent by \$15 million as of September 30, 1990, and Eximbank, therefore, would be reluctant to expand its exposure from the short-term facility.

AID/IDCA representative stated that since AID/IDCA was not active in Iraq, his agency had no position on the current proposal.

Federal Reserve Representative stated that, despite assurances on several points gained from the Agriculture Department papers, there was still more about the BNL affairs that had yet to be brought to light. He said that he was reassured, however, that the investigation had not yet revealed culpability on the part of the Iraqis. Nevertheless, he cautioned, it would be unrealistic to think that the entire BNL affair would be settled before the second tranche was released sometime in 1993.

Furthermore, Federal Reserve said, the BNL affairs notwithstanding, there was still the question of credit risk with respect to Iraq. While he stated that he understood the need to make a sale to a customer, it was just as important that the customer pay. He cautioned that extending 90 percent of the CCC's guarantee authority for a fiscal year to one country was not desirable in terms of risk management—especially when that country was engaged in unilateral debt rescheduling. Finally, noting the foreign policy considerations brought forward by State, Federal Reserve said that he, too, did not want to be obstructive, but had reservations about a one billion dollar program.

U.S. Trade Representative stated that, while this transaction was risky from both the creditworthiness and domestic and international political angles, he thought it was reasonable to proceed, given the safeguards discussed.

Treasury representative, in summarizing the course of the meeting, indicated that absent compelling agricultural export and foreign policy interests this proposed program probably would not go forward. He stated further that the Committee's deliberations had been valuable insofar as they facilitated: 1) acknowledgment of the risks for Iraq in the face of uncertainties as to the potential for future revelations of wrongdoing; 2) clarification of the point that resolution of the issue required a balancing of foreign policy and agricultural export interests; and 3) establishment of a record that showed that the risks involved in the transaction had been recognized and that the strong advice of the State and Agriculture had been taken that we should proceed. Then, in the worst scenario, it could be shown that the MAC agencies had taken prudent steps to protect the integrity of the program. He then offered a number of suggestions as to actions that might be taken.

Agriculture representative responded that he agreed that building a record was appropriate and supported the suggestions that Treasury had made. Agriculture indicated that it should be recognized there were significant controls in place and that the problems with BNL had been uncovered and disclosed to OMB because of them. MAC strongly seconded Agriculture point.

Treasury observed that the Middle East peace process was at a vital point and proceeding quickly with the proposed program would be helpful in that context. He added that he approved of the approach Treasury had suggested.

Based on the foregoing discussion, including the points suggested by Treasury that were subsequently accepted and refused to writing (see attached), the MAC Deputies agreed that Agriculture should go forward with a FY 1990 OGM program for Iraq in up to two tranches of export credit guarantee, with each tranche not to exceed \$600 million.

SUMMARY OF AGENCIES' POINTS IN MAC DURING MEETING ON PROPOSED CCC PROGRAM FOR IRAQ, NOVEMBER 8, 1990

1. The Agriculture Department will send a senior official to monitor the Iraq program through appropriate channels.

2. The Agriculture Department will suspend its program under specified conditions and will ensure the full cooperation of its government of Iraq in uncovering and dealing with any wrongdoing in connection with the program.

3. The Agriculture Department has reviewed the existing OGM procedures and installing additional safeguards or controls needed to tighten the monitoring and enforcement of its guarantee programs and to raise the probability that irregularities will be detected at an early stage.

4. The State Department and Agriculture will send, for the record, letters to the Secretary of the Treasury, in his capacity as chairman of the MAC, outlining the agricultural, trade, and foreign policy reasons which make it important to proceed with the CCC program for Iraq.

5. Prior to commitment of a second tranche under the Iraq program, the Agriculture Department will submit a written report to the MAC detailing:

(a) the nature and operation of the safeguards and controls established in connection with the Iraq program in particular;

(b) the steps taken to tighten the monitoring and enforcement of its export credit guarantee programs; and

(c) developments in the investigations of the BNL scandal.

Any significant developments with respect to the BNL investigations that may have ramifications for the Iraq program will be reported to the MAC as soon as they become known.

DEPARTMENT OF STATE

Washington, DC, June 12, 1990.

REA Subject: Eximbank Financing for Iraq Export Facilities

Attached is a background paper, prepared at the request of the Vice President's staff on the status of the proposed Iraq export pipelines and suggested talking points for possible use by the Vice President in calling Eximbank Board Chairman W. H. Ross Draper concerning Exim financing.

CHARLES HILL,
Executive Secretary.

BACKGROUND PAPER: STATUS OF IRAQI EXPORT FACILITIES

Iraq has agreements in principle with both Jordan and Saudi Arabia to build separate oil export pipelines and has asked US firms to take the lead in both projects. Both are moving forward slowly, however, because of delays in arranging financing as well as some opposition in Jordan on the part of the Iraqi and Saudi Governments.

Bechtel has detailed financial and technical discussions with an Iraq-Jordanian Joint Commission on the \$1 billion 1 miller barrel per day line to Aqaba. Recently, the Commission asked Bechtel to revise its proposal and maximize US official and private participation and present the new version by June 15. In keeping with this request Bechtel has now applied to Eximbank for a preliminary commitment of financing for up to \$670 million in US goods and services and has urged Exim to act on this request at its June 19 Board meeting (Eximbank credit cover 65 percent of the amount, or up to about \$600 million.) Bechtel is seeking financing for most of the remainder from Eximbank's French and British counterparts.

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CONGRESSIONAL RECORD — HOUSE

March 2, 1992

The Iraq-Jordanian effort to maximize US participation is in part due to concerns over possible Israeli interference with the planning, construction and operation of the line, which would terminate within a few miles of the Israeli port of Eilat. We have advised the Israelis of our interest in seeing this line operate and they have raised no military or political objections, but have noted the need for adequate environmental safeguards.

Iraq has also publicly and privately described this project as a major test of US intentions toward it. Jordan enthusiastically supports this project which would provide additional employment and continuing revenues.

In the case of the proposed link to the Saudi East-West pipeline, Brown & Root has a contract with Iraq to design and manage this \$400 million \$60,000 b/y project. The company has prepared an application for Exim financing of its \$35 million service contract but has delayed submitting it while it attempts to meet an Exim request for external, i.e., Saudi, guarantee. Construction of this line presents a number of potential problems to the Saudis and their commitment appears lukewarm at best; while they have not obstructed preliminary work, they have also not facilitated it, and there has been no sign of Saudi government willingness to provide financing.

Eximbank support is likely to be a crucial component, particularly for the Aqaba line. Exim's policy data has been to disapprove medium and long term financing for US goods and services for Iraq in the absence of external security arrangements because of doubts regarding repayment prospects. Following recent discussions with Exim Chairman Draper and his staff, however, Bechtel believes they are favorably disposed towards the project and Bechtel's application, which would include only about \$50 million in Iraqi risk with the remainder backed by a Jordanian government guarantee. (All of Brown & Root's request would be for Iraqi risk.) The Aqaba project would be one of the largest single commitments ever made by the Bank and would far exceed its current exposure in Jordan.

While expressions of interest and support made to Eximbank at this time would necessarily focus on Bechtel's application regarding the line to Aqaba, we do not regard the two projects as mutually exclusive. Both would be beneficial.

Given the importance of these projects to our overall policies in the region, Deputy Secretary Dam is calling Mr. Draper to reiterate our foreign policy interests. (The Secretary has not been involved because of his previous association with Bechtel.) We understand that National Security Advisor McFurline may also call Draper. A call by the Vice President would be particularly useful in confirming the Administration's support for these projects. (Suggested talking points for such a call are attached.)

TALKING POINTS: EXIM FINANCING FOR IRAQ

The war between Iraq and Iran directly affects our vital interests in the Middle East and particularly in the Persian Gulf.

Our objective is to bring the war to a negotiated end in which neither belligerent is dominant and the sovereignty of both is preserved. We believe that victory by either side would have a serious destabilizing effect on the region.

At the present time, Iran is the intransigent party, unwilling to negotiate in part because it believes it can win in a war of attrition. We must therefore seek means to bolster Iraq's ability and resolve to with-

stand Iranian attacks as well as to convince Iran that continuing hostilities are useless.

One such means would be the early initiation of construction and rapid completion and operation of additional export pipelines for Iraq's large oil reserves.

Eximbank could play a crucial role in our efforts in the region. Early and favorable action on applications for Exim financing for these pipeline projects would be clear and very welcome evidence of US commitment to these objectives.

US suppliers of services and equipment would benefit and with the completion of these pipelines, we would be less dependent on oil shipped through the Persian Gulf.

Finally, operation of a pipeline to Aqaba could contribute to stability in the region by promoting at least tacit cooperation in the region.

DEPARTMENT OF STATE

Washington, DC, March 16, 1992.

To: The Secretary.

From: ED—Richard McCormack.

Subject: U.S. Credit Possibilities for Iraq.

ISSUE FOR DECISION

Whether to approve the attached cable (Tab A) outlining the limited possibilities for U.S. financial support for exports to Iraq.

ESSENTIAL FACTORS

In your February 14 meeting with Iraqi Minister of State Hammadi you undertook to provide Iraq information on official U.S. financing possibilities in support of U.S. exports to Iraq.

Iraq's financial position has gradually worsened since the beginning of the war in 1980 and is likely to grow more serious over the next six months. With reduced, although still substantial, aid from the Gulf, Iraq faces a current account short-fall of as much as \$10 billion this year. This situation undoubtedly motivated Hammadi to mention to you that the US should consider providing credits, loans and technical cooperation to support U.S. exports to Iraq, which have approached one billion dollars in each of the past two years.

ANALYSIS OF OPTIONS

There are two possibilities for US official credit for Iraq: (a) Eximbank program; (b) CCC blended credits or guarantee for agricultural exports. Secondly, the US attitude in the IMF could affect Iraq's ability to obtain access to IMF resources. Finally, although commercial bank financing is beyond USG control, we could take some minor steps in support of Iraq's prospects in private credit markets.

A. Eximbank Programs

Eximbank is discouraging the few inquiries from US exporters regarding Iraq because of the war's effect on Iraq's economy. This decision was based upon the Export-Import Bank Act requirement that there be "a reasonable assurance of repayment". Other official credit agencies have informed Exim of payment and contract problems.

Equally problematic is section 530 of the Foreign Assistance Appropriations Act of 1979 which prohibits Eximbank funding to any government which harbors terrorists. I has concluded that if an Iraqi government entity were involved in an Eximbank transaction, then the question of whether Iraq was harboring terrorists would have to be decided. However, an area of ambiguity exists with respect to the issuance of PCIA insurance for the benefit of a U.S. exporter or U.S. bank where the importer is a private foreign national.

Section 530 language originated in a 1977 amendment proposed by Senator Harkin. With the Eximbank Act up for renewal this

year, a section 530 case, on the heels of a Chafee Amendment determination for Argentina, could galvanize Congressional support to circumvent the Administration's flexibility to ensure that Exim loans are consistent with our foreign policy. Because Harkin was a key Senator on the Eximbank renewal we would hope to avoid a section 530 case. Given legislative requirements and Congressional sensitivity, we have asked Eximbank to refer any applications involving Iraq to State before taking action.

B. CCC Blended Credit Program

Based in part on the opinion of the AID General Counsel's office, I has concluded that there are no FAA or other pertinent statutes which specifically bar a CCC program for Iraq. In December, USDA approved \$210 million in CCC credit guarantees for Iraqi imports of U.S. agricultural exports. State successfully opposed a proposal to raise the quantity of wheat in the package (and increase the total package to \$350 million), citing the need to avoid further angering Canada, a non-subsidizing exporter of wheat. Canada has complained that our blended credit package with Iraq has affected their non-subsidized cash wheat market there. Although Agriculture has received Iraqi assurances that they will purchase the minimum amounts of Canadian wheat required under the long term agreement with the GOC, the Canadians have told us that the Iraqis have not signed any new contracts for wheat deliveries for this year and that old contracts also have not been picked up. We can expect further protest from Ottawa.

C. U.S. Vote in the IMF

IMF assistance may be appropriate for Iraq's current balance of payment problems. We could give no blanket commitment to support Iraqi applications, since our decisions are made on the viability of individual loans. Furthermore, legislation requiring that we "vote in opposition" to any extension of IMF financial or technical assistance to any country that harbors terrorists would be an additional constraint. For these reasons and because we could not want Iraq to tell the IMF the U.S. in any way suggested it approach the Fund, we have not included this subject in the cable.

D. Commercial Financing

The Iraqi probably doubt disclaimers that the USG cannot swing loans for Iraq through friends in the private sector. We might remind the Iraqis that the private sector takes into account the state of political relations in making its credit determinations. We could offer to arrange consultations between Iraqi government financial officials and U.S. government and private international financial experts.

RECOMMENDATION

That you approve the attached cable which instructs US Interest Section Chief Engleton to inform the Iraqis what we have done on CCC credits, explains the constraints on Eximbank credits to Iraq and reiterates that the U.S. private sector is influenced by the overall state of our relations.

HOUSING CREDIT KEY TO ECONOMIC GROWTH PACKAGE

The SPEAKER pro tempore (Mr. Hymowitz). Under a previous order of the House, the gentleman from Florida (Mr. STARRS) is recognized for 5 minutes.

Mr. STARRS. Mr. Speaker, perhaps no element of President Bush's

3/2/92

BNL, Iraq and the CCC Program

Statement of The Honorable Henry B. Gonzalez

Chairman, Committee on Banking, Finance and Urban Affairs

CREDITWORTHINESS ASSESSMENT OF IRAQ

Iraq will not be able to commit sufficient resources for foreign debt service over the next five years or longer!

The military absorbs a substantial share of Iraqi resources:

- Long-term program for enhanced regional political power.
- 1/4 of all adult males are on active duty in the armed forces.
- Large military hardware purchases: fighters, etc.
- Costly high-tech military production projects.
- Military will absorb output of new civilian industries.

The "civilian" government also absorbs considerable resources:

- Large, costly intelligence services and informer networks.
- Costly government bureaucracies control most industry.
- "Privatization" efforts are minimal.
- Costly consumer price subsidies--including farm products.
- Costly prestige projects--Basra and others.

The government fails to mobilize the private sector:

- Military and government have first claim on resources.
- Private business limited--by government--to small scale.
- Government price controls constrain profits.
- Traders forced to operate outside government FX system.
- State banking system discourages private savings, investment.

The government's additional resources will be insufficient:

- Oil revenues remain constrained by OPEC negotiations.
- New industries: civilian FX contribution likely small.
- Non-oil projects: will not be permitted to "stand alone".
- Massive agricultural development is far off.

Iraq will make timely debt payments only to "favored creditors"!

Iraq's debt strategy is not likely to change:

- Iraq only repays those who offer larger amounts of new money.
- Iraq attempts to force new money from creditors by defaulting, or threatening to default, on existing debt.
- Iraq reschedules--on a bilateral basis--debts owed creditors who are unwilling to commit new money.
- Iraq will not go to the Paris Club or otherwise adopt "normal" debtor-creditor relations.

Export credit agencies seek to reverse Iraq's strategy:

- Only ECDB--backed by IMF Treasury--provides MF project cover.
- Other ECAs link SF cover to specific amounts of repayments.
- ECA terms: pre-84 debt repaid first, post-83 debt rescheduled.
- Political element to rescheduling negotiations: Italy & Japan

Iraq's strategy toward Eximbank:

- Iraq seeks small MF program as a "foot-in-the door."
- Iraq will seek much larger Exim programs thereafter.
- Iraq using U.S. exporters to lobby for new credit.
- Iraq will maintain SF payments while MF is on Exim agenda.

Exim can expect Iraqi "favored creditor" status as long as:

- Exim commits to consecutively larger lending programs.

Source: 1989 Eximbank

OUTGOING

Department of State

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S/S 8923697

United States Department of State

*October 11, 1989**SL
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Washington, D.C. 20520

MEMORANDUM FOR THE SECRETARY

SUBJECT: CCC Credits for Iraq

I have looked into the problems concerning USDA's Commodity Credit Corporation (CCC) program for Iraq. There are three distinct but related problem areas:

1. Creditworthiness.
2. Allegations of corruption in the operation of the Iraqi CCC program itself.
3. The Italian Banca Nazionale de Lavoro (BNL) agency office scandal in Atlanta.

Creditworthiness

The Fed, Treasury and EXIM have all been concerned about Iraq's credit record for several years. During the war years the Iraqis became notoriously bad creditors defaulting or unilaterally rescheduling billions of dollars of official and commercial credit and refusing to even discuss the matter in the Paris and London Clubs. Because of the extenuating circumstances and the country's substantial economic potential, not to mention the opportunity to profit from the war recovery program, this has never been a big stumbling bloc for Iraq's other major trading partners like Japan, France and West Germany.

Iraq's repayment record on the CCC program has been good. There is, however, some concern about the large amount of credit outstanding (about \$1.7 billion) and heavy debt service (some \$800 million a year), especially since Iraq already accounts for about 20 percent of the total CCC program. Despite these concerns by Treasury and the Fed, USDA has been disposed to continue the program at the \$1 billion a year level, in part, not to unnecessarily anger the Iraqis and trigger a default that could jeopardize the whole CCC program.

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Creditworthiness, therefore, while a legitimate concern, is not a major driving factor for reducing the Iraq CCC program. All other things being equal, USDA would continue on at the \$1 billion plus level indefinitely and the Fed and Treasury would probably acquiesce.

EXIM has refused to provide medium-term credit to Iraq until they agree to multi-debt rescheduling of official debt. The Bank's \$200 million insurance program has also been "suspended" until the \$6.2 million in arrears is repaid.

Corruption

Several investigations (IRS, DOD, USDA, FBI) reportedly are looking to allegations of widespread and blatant "irregularities" in the CCC program for Iraq. Hard information is difficult to obtain, but apparently there has been substantial overpricing of some commodities (double and triple wholesale prices), diversion and trans-shipment of commodities outside Iraq and financing of non-U.S. origin goods. There is even one report that the Iraqis used the proceeds for arms purchases.

None of this, of course, has yet to be proven. Nor is it clear how long these investigations will take and whether or not indictments will eventually be handed down. And even if they are, it may never be clear how much, if any, Iraqi official complicity there was.

Banca Nazionale de Lavoro (BNA)

The unfolding BNA scandal is directly involved with the Iraqi CCC program and cannot be separated from it. Of the \$4 billion of unauthorized loans involved, about \$1 billion were CCC guaranteed. (* is trying to obtain the details from the U.S. attorney in Atlanta.) Treasury and the Fed, however, find it hard to believe that Iraqi Central Bank officials and others were not aware of what was going on given the apparent scale of loans, kickbacks, deeply discounted interest rates and other gross irregularities. Indictments of U.S. citizens are expected by the end of this year, although no legal moves against Iraqi officials are contemplated at this point.

It is also worth noting the president of Iraq's central bank and the finance minister reportedly have been arrested for unknown reasons in the past several days.

(* = State)

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Response to Iraqis

Given the above apparent problems with the Iraq CCC program, it would seem wise to proceed with caution and prudence. We should not jump to conclusions before all the facts are known; nor should we continue with business-as-usual.

USDA, acting against the advice of the Fed and Treasury, but with the support of the other MAC members (including State), recently approved a "first tranche" of \$400 million in FY 1990 CCC credits for Iraq -- about one-third of the planned annual program or enough to keep the pipeline open until January at about the same volume as last year. They have told the Iraqis that approval of additional credits will depend on the outcome of the ongoing investigations into the BNA scandal and charges of corruption in the operation of the CCC program.

The Iraqis are taking an "all or nothing" approach, insisting that they have done nothing wrong and will be hurt badly if the annual CCC program is substantially cut. Iraq, in fact, is a consistent net importer of food and other commodities and undoubtedly benefits considerably by the CCC program. Certain painful adjustments would undoubtedly have to be made at a time when the government is hard-pressed for foreign exchange.

On balance, I think the USDA approach is prudent and proper under the circumstances. No options are foreclosed and, at least until the pipeline dries up, the Iraqis are not being prejudged until the facts are known and acted upon by U.S. authorities.

In the meantime, this situation should be kept under close policy review because the stakes are big. We need export markets, and Iraq is a large potential market and as the war-induced imports are replaced by commercial purchases, this market will undoubtedly increase in the next decade.

Once the facts are all known, it may be possible to correct the problem by building in safeguards against future possible abuses and then resuming the Iraq CCC program at previous levels. We will want, in any event, to avoid taking punitive action against the whole Iraqi government and population for the sins of some corrupt officials if they are brought to justice.

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WASHINGTON

October 27, 1989

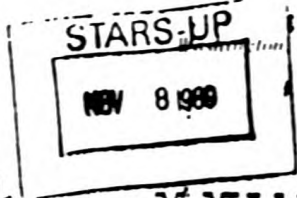
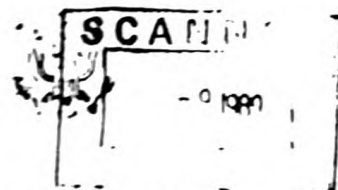
Mr. Secretary:

When this issue first emerged, office was screaming caution on our involvement in this CCC exercise with Iraq. Ten different U.S. Government agencies were investigating various aspects of potential fraud in Iraq's past CCC program, and no one really knew just how far and deep the corruption went.

I was then reluctant to advise you to proceed with this matter until we had an opportunity to dig deeper into the potential corruption, and until the Department of Agriculture had an opportunity to follow through on my suggestion to devise a new CCC program with Iraq that would insulate us against corrupt elements.

I gather that a sanitized CCC program with Iraq is devised. In the meantime the top GOI ministerial team associated with the CCC program has been removed. You also now have a formal recommendation from that we proceed on this matter.

Assuming that USDA finalizes a sanitized CCC program, I recommend that you assert to Yeutter the political and economic rationale for going forward with this whole program, by tranche, to the \$1 billion level. If we are comfortable with a \$400 million exposure, based on our new anticorruption safeguards, we ought to be comfortable with a billion dollar program.



United States Department of State

BRIEFING MEMORANDUM

S/S MK "12"

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TO: P - Mr. Kimmitt.

FROM:

SUBJECT: NAC Deputies Meeting on the CCC Program for Iraq
November 8, 1989, at Treasury, 0900

I. KEY POINTS

In early October, Iraq rejected USDA's offer of an "interim" FY90 program of \$400 million in Commodity Credit Corporation (CCC) credit guarantees. At the urging of Secretary Baker, USDA has proposed a full, billion-dollar CCC program for Iraq with built-in safeguards to ensure Iraqi compliance with CCC obligations and cooperation with the U.S. Attorney's investigation of the Atlanta branch of the Italian-owned Banca Nazionale del Lavoro (BNL). On November 3 the National Advisory Council (NAC) declined to make a recommendation on the new USDA proposal, preferring instead to refer the decision to the policy level.

Our goal for the NAC Deputies meeting was to obtain NAC approval for USDA's full, billion-dollar program with safeguards for Iraq. Rapid action is needed because Iraq has already begun to explore alternative sources of supply.

II. INTERAGENCY POSITIONS

The Federal Reserve and Treasury, reflecting the views of OMB (which is not in the NAC), oppose a CCC program for Iraq. They note that Iraq has failed to make payments on some of its \$30-40 billion debt to non-Arab creditors. They also support OMB's contention that allegations of Iraqi wrongdoing in the BNL case, though not backed by evidence at this time, could eventually embarrass the Administration. USDA responded to OMB's specific concerns on BNL, but OMB (and Fed and Treasury) claimed to have continued, unarticulated "uneasiness" regarding the BNL case. OMB's concern stems from its post-BNL watchdog role. It is not clear whether a meeting between OMB and the USDA

on 11/7 allayed OMB concerns.

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State strongly backed USDA in the November 3 NAC. The other NAC members -- AID, USTR, Commerce and EXIM -- did not speak at the meeting. USTR reportedly is leaning against USDA's proposal. However, AID can generally be depended upon to follow State's lead and EXIM has privately indicated support, since it has its own short-term program of credit guarantee. The Commerce representative will support the State position if the argument is made on foreign policy grounds.

III. PROPOSED STRATEGY

The Deputy Secretary has laid the groundwork by calling Deputy Secretary Robson at Treasury, to urge acceptance of the full program, and he plans a similar call to OMB. USDA briefed OMB November 6, emphasizing that the U.S. Attorney does not intend to indict Iraqi officials in the IHI case on the basis of the evidence to date. You should strongly urge, on policy and commercial grounds, that the NAC Imputies approve the full package, with safeguards, submitted by USDA.

Attachment: Talking points

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TALKING POINTS FOR NAC DEPUTIES MEETING
November 8, 1989

The CCC program is crucially important to our bilateral relationship with Iraq. State strongly supports immediate action by the NAC Deputies to approve the new program proposed by USDA.

-- In NSD-26, the President mandated that we seek to improve and expand our relationship with Iraq. At present, trade is central to that relationship and credits guaranteed by CCC finance a large part of that trade.

(In response to the point that Iraq cannot service existing debt and that we are digging ourselves into a hole by providing new credits:)

-- Iraq's record of repayment to us is good, and the Iraqis have told us we have priority over other creditors. Iraq has oil reserves second only to Saudi Arabia. In addition, we should not take action that would harm U.S. exporters.

(In response to the point that we should not go forward with a new program in light of the BNL scandal:)

-- On the basis of the evidence we have there is no reason to derail future programs. We have a pledge of Iraqi cooperation with an investigation into the BNL issue, in response to the Secretary's request to the Iraqi Foreign Minister. No investigating agency has put any specific questions to Iraq.

-- Past problems are a reason to make sure there are adequate safeguards in a new program -- not a reason to stop the program in its tracks to the detriment of our foreign policy interests.

-- We support a program of up to one billion, released in tranches, with periodic compliance reviews. These safeguards should protect us if problems are uncovered in the future and help assure Iraqi cooperation in the investigation.

I urge immediate approval of the full program of CCC credit guarantees, with safeguards, proposed by USDA for Iraq.



United States Department of State

Washington, D.C. 20520

CONFIDENTIAL8925802 KR892497C
'89 NGV-06 6:30 PM**ACTION MEMORANDUM
S/S****TO:** The Acting Secretary - *Eagleburger***THROUGH:****FROM:****SUBJECT:** CCC Program for Iraq**ISSUE FOR DECISION**

How to expedite approval of a full CCC program for Iraq.

ESSENTIAL FACTORS

The Secretary has determined that policy considerations warrant support for a full, \$1 billion program of Commodity Credit Corporation (CCC) credit guarantees for Iraq, provided the program is protected by safeguards, such as disbursement in tranches, that would ensure Iraqi compliance with CCC obligations and cooperation with the investigation of the Atlanta branch of the Italian-owned Banca Nazionale del Lavoro (BNL). The Iraqis rejected a USDA offer of a \$400 million "interim" in early October because they believed so drastic a cut from the \$1.1 billion FY89 program would be widely viewed as a U.S. vote of no confidence in Iraqi debt policy. The Secretary telephoned Secretary Yeutter October 31 to urge that USDA propose a full program with adequate safeguards (Tab A).

USDA presented its new proposal for a full, billion-dollar program to the National Advisory Council (NAC) on November 3 (Tab B for membership and function of the NAC). The NAC declined to make a recommendation on the USDA proposal, electing instead, at Treasury's request, to bump the decision up to the political level; an Alternates' (Assistant Secretary level) meeting is to take place this week. Treasury and the Fed formally moved to block a decision in the NAC, acting at the behest of OMB. OMB, though not a member of the NAC, led the opposition to USDA's proposal at the November 3 meeting. Noting that OMB is administration watchdog against scandal, OMB complained of continued uncertainty regarding the Iraqi role in the BNL.

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affair and that the Iraq CCC program was too big, given Iraq's recent failure to make timely payments on debt to some creditors. (OMB's real problem may be less with Iraq per se than with some serious accountability questions regarding the entire CCC program.) USDA responded to OMB, noting that the legal situation with regard to BNL remained unchanged, that there were no current plans to indict Iraqi officials, and that Iraq's record on repayment of CCC-guaranteed credits was spotless (Tab A). The NAC members, however, were content to kick the problem to a higher level. Only State spoke out in support of the USDA proposal.

Time is a factor. USDA has yet to register a single purchase by Iraq from U.S. commodity suppliers in FY90, and the Iraqis have begun to explore alternate sources of supply. A significant potential market for U.S. exporters is therefore at risk. USDA wants an Alternates' meeting as soon as possible, and it may take place as early as the afternoon of November 7.

RECOMMENDATION

That you telephone Treasury _____ and
OMB and urge that an Alternates meeting take
place as soon as possible to approve USDA's proposed full
program of CCC credit guarantees, with safeguards, for Iraq.

Approve _____ Disapprove _____

Attachments: Tab A - Action Memorandum approved by Secretary
Tab B - Note on role and composition of NAC
Tab C - Talking points

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'89 NOV -8 P3:54

DEPARTMENT OF STATE
WASHINGTON

November 8, 1989

CONFIDENTIAL

AGRIC:
Parnell
RF:rv

Dear John:

Further to our discussion, on foreign policy grounds we support the Department of Agriculture's proposal for a full, billion-dollar program of Commodity Credit Corporation GSM-102 export credit guarantees in FY 90, with adequate safeguards, for Iraq.

In addition to the near-term benefits for agricultural sales, the CCC program is important to our efforts to improve and expand our relationship with Iraq, as ordered by the President in MSD-26. Iraq is a major power in a part of the world which is of vital importance to the United States. Our ability to influence Iraqi behavior in areas from Lebanon to the Middle East peace process to missile proliferation is enhanced by expanded trade. Also, to realize Iraq's enormous potential as a market for U.S. goods and services, we must not permit our displacement as a major trading partner.

With regard to the real concerns which arise from the investigation into the operations of the Atlanta branch of the Banco Nazionale de Lavoro, we have received from the Government of Iraq a pledge of cooperation. Our intention is to hold Iraq to this commitment and to work with the Department of Agriculture to ensure that the problems with the program in the past are fully resolved in a new program. The safeguards proposed by USDA, including disbursement of the CCC guarantees in tranches, buttress the program and merit our backing.

I appreciate your support in this connection.

Sincerely,

Larry
Lawrence S. Eagleburger
Acting Secretary

The Honorable
John E. Robson,
Deputy Secretary of the Treasury.

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United States Department of State
Washington, D.C. 20520

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ACTION MEMORANDUM ^{SE}
SS ^{11/6}

8925977A
89 NOV-08 12:00 PM



TO: The Acting Secretary

FROM:

SUBJECT: Letter to Treasury Deputy Secretary Robson
on a CCC Program for Iraq

In your conversation earlier today, Department of the Treasury Deputy Secretary John Robson asked that you send him a letter outlining the policy reasons for which State strongly backed USDA's proposal for a full, billion-dollar program of Commodity Credit Corporation (CCC) credit guarantees, with safeguards, for Iraq. Attached is a letter for your signature that outlines those policy considerations. It essentially follows the talking points provided for your telephone conversation with Mr. Robson.

Recommendation

That you sign the attached letter to Deputy Secretary Robson.

Attachment - Proposed letter to Deputy Secretary Robson

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United States Department of State
Washington, D.C. 20520

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ACTION MEMORANDUM

89 OCT-1 19:20

October 26, 1989

TO: The Secretary

8924995

THROUGH:

89 OCT-26 6:55 PM

FROM:

SUBJECT: The Iraqi CCC Program

ISSUE FOR DECISION

Whether to push for a full CCC program for Iraq.

ESSENTIAL FACTORS

Over the last five years USDA's Commodity Credit Corporation (CCC) has guaranteed some \$4 billion in loans for U.S. agricultural exports to Iraq under its GSM program, which Iraq so far has repaid on schedule. This year, concern over possible Iraqi involvement in the scandal in the Atlanta branch of Italy's Banco Nazionale del Lavoro (BNL) caused USDA to withdraw its first, billion-dollar offer for FY90 and put forward instead an "interim" program for \$400 million. The Iraqis, believing so large a reduction would be widely viewed as a U.S. vote of no-confidence in their economy, rejected the 400 million. They hope we will come back offering the full program but also have begun to hedge their bet by looking into other sources of supply. Tariq Aziz raised the issue with you on October 6, and you promised to look into it personally.

Earlier this month, the President signed NSD-26, mandating pursuit of improved economic and political ties with Iraq. Since last year's cease-fire in the Gulf War, trade has become the central factor in this relationship. Iraq is now our ninth largest customer for agricultural commodities, and the U.S. is Iraq's largest supplier of non-military goods. Iraq has signalled the importance it places on the relationship by giving first priority to repaying CCC-guaranteed loans at a time when it faces severe financial difficulties. (Treasury and the Fed cite these difficulties -- Iraq has failed to make some payments on its \$30-40 billion debt to non-Arab creditor -- in opposing any FY90 CCC program for Iraq.) Our ability to influence Iraqi policies in areas important to us, from Lebanon to the Middle East peace process, will be heavily influenced by the outcome of the CCC negotiations.

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CONFIDENTIALTALKING POINTS

-- The CCC program is crucially important to our bilateral relationship with Iraq. We strongly support your effort to reinstitute it.

-- Obviously we should not go forward with the program if we have substantial evidence of a pattern of serious violations of US law by high-ranking Iraqi officials. Our information about the investigation indicates that the prosecutor does not now intend to indict Iraqi officials.

-- On foreign policy grounds, we support a program of up to one billion, released in tranches, with periodic compliance reviews.

-- Given the allegations, we believe safeguards should be built in to ensure the alleged problems do not recur.

-- The Iraqi Foreign Minister, with whom I talked, has now pledged Iraq's cooperation with the investigation.

-- My legal adviser, Abe Sofaer, is prepared to work with USDA's lawyers to secure Iraqi cooperation in developing adequate safeguards for the Iraq CCC program.

* [-- With safeguards, I hope we can get this important program back on track quickly.

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10/20 EJC
 Sam. "I think we're
 seeing it the
 same way your
 guys are. Will get
 into it." J.H.

FUNCTION AND COMPOSITION
OF THE NATIONAL ADVISORY COUNCIL

The National Advisory Council (NAC) was established by statutory authority to advise the President on general policy directives for the International Monetary Fund, the multilateral development banks, the Export-Import Bank and other agencies that participate in making foreign loans or engage in foreign financial, exchange or monetary transactions. It is composed of the Secretary of the Treasury, who is chairman of the Council; the Assistant to the President for Economic Affairs, who is Deputy Chairman; the Secretary of State; the U.S. Trade Representative; the Secretary of Commerce; the Chairman of the Board of Governors of the Federal Reserve System; the Chairman of the International Development Cooperative Agency; and the President of the Export-Import Bank. By Executive Order, the President has delegated to the Secretary of the Treasury most of the functions and responsibilities conferred on him in the setting up of the NAC.

In practice, the NAC meets weekly at the working level and generally makes its recommendations on the basis of a majority vote of the seven members routinely in attendance (Treasury, State, the Fed, AID, USTR, Commerce and EXIM). In cases in which the NAC cannot or prefers not to make a decision, or on the strong request of one of its members, consideration may be moved up to the policy level through the convening of a NAC Alternates' Meeting.

CONFIDENTIALTALKING POINTS FOR CALLS TO TREASURY AND OMB

-- The CCC program is crucially important to our bilateral relationship with Iraq. State strongly supports action by the Alternates' meeting to approve the new program proposed by USD

-- We realize that Iraq has had problems paying its debts recently. However, the Iraqi economy survived the war in surprisingly good shape, and Iraq sits atop immense oil reserves. Its record on repayment of CCC-guaranteed loans is spotless.

-- Obviously, we should not go forward with the program if we have substantial evidence of a pattern of serious violations of US law by high-ranking Iraqi officials. However, the most recent available information about the BNL investigation indicates that the prosecutor does not now intend to indict Iraqi officials.

-- On foreign policy grounds, we support a program of up to one billion, released in tranches, with periodic compliance reviews. These safeguards should protect us if problems are uncovered in the future and help assure Iraqi cooperation in the investigation.

-- Given the allegations, we believe safeguards should be built in to ensure the alleged problems do not recur.

-- The Iraqi Foreign Minister has promised the Secretary Iraqi cooperation with the BNL investigation.

-- With safeguards in place, we can get this important program back on track.

-- I urge that the MAC Alternates Meeting be convened as soon as possible to approve the full program of CCC credit guarantees, with safeguards, proposed by USDA for Iraq.

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National Advisory Council
Deputies Meeting
Minutes
Meeting 89-1
November 8, 1989

Agencies:

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TREASURY Representative opened the meeting by stating that there were two issues that should be addressed with respect to the proposed extension of new CCC guarantees to Iraq in FY 1990: (1) the question of Iraqi creditworthiness and (2) the implications of the Banca Nazionale del Lavoro (BNL) investigation and the uncertainties it created for the proposed program for Iraq. He stated that the proposed FY 1990 program should be evaluated, first, on the basis of the agencies' judgment that the 1990 program was a responsible action from a programmatic standpoint, and, second, from the standpoint of having to defend the program to a hostile Congressional committee or the media if a worst case scenario -- involving criminal conduct in connection with the program on the part of banks, exporters, or the Iraqis -- came about. He indicated that this possible worst case scenario should be weighed against the agricultural, trade, and foreign policy considerations involved in a decision on whether to proceed with the program. He then referred the meeting participants to two background papers prepared by Agriculture which outlined 1) the status of the BNL investigation and 2) a country risk analysis of Iraq, and asked Agriculture for his comments.

Agriculture Representative noted that the BNL investigation had, thus far, resulted only in allegations of violations and that the Department of Agriculture Representative had advised the Department in writing that there was not an evidentiary basis for withholding approval of a new CCC transaction with Iraq. Furthermore, he said, many of these alleged violations were internal BNL bank matters not associated with the management of the GSM program for Iraq. He added that while eventually it might be proven that certain BNL bank officers had been engaged in violations of the banking laws, such possible violations would not necessarily implicate Iraqi officials or others directly connected with the CCC program. These possibilities had to be weighed against the value of one billion dollars in export sales -- to a country, he noted, that accounted for 20 percent of all U.S. rice exports and was the tenth largest U.S. agricultural export market. He said that in his view the benefits of approving the program far exceeded the risks.

The Department of Agriculture continued by noting that Iraq normally entered the market at that time of the year. He added that the United States was already five weeks late in its export credit negotiations with Iraq, and, accordingly, there was a risk of our losing the market for our exports.

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Classified by Allen E. Clapp

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As to a worst case scenario, *Agriculture representative* said that his position would be that, based on all available evidence, the decision to go ahead with the GSM program was appropriate and correct. He stated that in this country innocence is assumed until proven otherwise and it was therefore improper to penalize the Iraqis for unproven allegations. Noting that the one billion dollar program was to be offered in two tranches, he suggested that if wrongdoing on the Iraqis' part were proven, the unused portion of the first tranche could be withdrawn and the second tranche not released. He summarized by noting that Iraq had to make immediate buying decisions, and that third parties were willing to fill these agricultural needs at the expense of U.S. exporters. He concluded that there was a strong need to move ahead expeditiously with a FY 1990 GSM program for Iraq.

Department of State representative stated that his comments reflected the views of *State*, who believed that the GSM program in Iraq was crucial to the U.S. bilateral relationship with Iraq. He noted that in "National Security Decision 26" the President had called for improvement of the U.S. relationship with Iraq, and bilateral trade expansion offered a good means to achieve that end. He noted that Iraq was key to the achievement of our objectives in the Middle East, the Gulf, and Lebanon. To abruptly terminate the GSM program in Iraq would, he said, clearly run counter to the President's intention and would, furthermore, cause a deterioration in our relationship with the Iraqis. Any such deterioration, he contended, would create difficulties in ongoing discussions on other issues, e.g., the Middle East peace process, human rights, and proliferation of missile and chemical weaponry. He noted that *TREASURY* had called *?* to express his support for an ongoing GSM program in Iraq. He also noted that the Iraqi Foreign Minister had given assurances that Iraq would cooperate fully with the investigation. Finally, he stated that, despite possible future revelations, overwhelming foreign policy considerations led him to urge support of the proposal, based on information available at that time.

Executive said that, while he was aware that *?* was not a voting member of the MAC, his agency's mandate to *?* the management of Government programs had led him to request an interagency review of the GSM-Iraq program. He applauded *?* for bringing a potential problem to the attention of OAG, stated that he was satisfied that the allegations had been taken seriously, and indicated that he did not want to express an opinion on the issue. Noting that the decision on approval of the program would involve a balancing of risks, he expressed confidence that the eventual outcome would be prudent.

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and correct.

Department of Commerce representative, noting Iraq's large external debt and questions surrounding its creditworthiness, voiced an uneasiness with the proposed program. However, noting the foreign policy concerns of State and the large export market that Iraq represented, he said that Commerce did not want to obstruct the proposal. In response to a question from Treasury, he said that his agency was not opposed to the program but felt that tranching and other safeguards were necessary.

Eximbank representative said that he viewed the NAC as a forum for consideration of political, not country creditworthiness, issues. He noted that Eximbank had supported the CCC on its Iraq proposal in the past and would do so at this meeting. He also noted that Eximbank was currently open in Iraq with a short-term \$200 million revolving line of credit. The Iraqis, he said, were currently delinquent by \$12 million as of September 30, 1989, and Eximbank, therefore, would be reluctant to expand its exposure from the short-term facility.

AID/IDCA representative stated that since AID was not active in Iraq, his agency had no position on the current proposal.

Federal Reserve representative stated that, despite assurances on several points gained from the Agriculture Department papers, there was still more about the BNL affair that had yet to be brought to light. He said that he was reassured, however, that the investigation had not yet revealed culpability on the part of the Iraqis. Nevertheless, he cautioned, it would be unrealistic to think that the entire BNL affair would be settled before the second tranche was released sometime in 1990.

Furthermore, Federal Reserve said, the BNL affair notwithstanding, there was still the question of credit risk with respect to Iraq. While he stated that he understood the need to make a sale to a customer, it was just as important that the customer be sound. He cautioned that extending 30 percent of the CCC's limited authority for a fiscal year to one country was not sound in terms of risk management -- especially when that country was engaged in unilateral debt reschedulings. Finally, noting the foreign policy considerations brought forward by State, Federal Reserve said that he, too, did not want to be obstructionist, but had reservations about a one billion dollar program.

US Trade Representative stated that, while this transaction was risky from both the creditworthiness and

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domestic and international political angles, he thought it was reasonable to proceed, given the safeguards discussed.

Treasury representative, in summarizing the sense of the meeting, indicated that absent compelling agricultural export and foreign policy interests this proposed program probably would not go forward. He stated further that the Committee's deliberations had been valuable insofar as they facilitated: 1) acknowledgment of the risks of proceeding with the proposed program for Iraq in the face of uncertainties as to the potential for future revelations of wrongdoing; 2) clarification of the point that resolution of the issue required a balancing of foreign policy and agricultural export interests; and 3) establishment of a record that showed that the risks involved in the transaction had been recognized and that the strong advice of the *State and Agriculture* had been that we should proceed. Thus, in the worst case scenario, it could be shown that the MAC agencies had taken prudent steps to protect the integrity of the program. He then offered a number of suggestions as to actions that might be taken.

Agriculture representative responded that he agreed that building a record was appropriate and supported the suggestions that *Treasury* had made. *Agriculture* indicated that it should be recognized that there are significant controls in place and that the problems with SWL had been uncovered and disclosed to OMB because of them. *USC* strongly seconded *Agriculture* point.

Treasury observed that the Middle East peace process was at a vital point and proceeding quickly with the proposed program would be helpful in that context. He added that he approved of the approach. *Treasury* had suggested.

- Based on the foregoing discussion, including the points *Treasury* that were subsequently *Treasury* reduced to writing (see attached), the MAC Deputies agreed that we should go forward with a FY 1990 GSM program for Iraq of two tranches of export credit guarantees, with each tranche to exceed \$500 million.

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**Summary of Agreed Points in NAC Deputies Meeting
On Proposed CCC Program For Iraq
November 8, 1989**

1. The *Agriculture Department* will designate senior officials to monitor the Iraq program through appropriate channels.
2. The *Agriculture Department* will suspend its program under specified conditions and will ensure the full cooperation of the Government of Iraq in uncovering and dealing with any wrongdoing in connection with the program.
3. The *Agriculture Department* has reviewed the existing GSM procedures and is installing additional safeguards or controls needed to tighten the monitoring and enforcement of its guarantee programs and to raise the probability that irregularities will be detected at an early stage.
4. The *State Department* and *Agriculture* will send, for the record, letters to the Secretary of the Treasury, in his capacity as Chairman of the NAC, outlining the agricultural, trade, and foreign policy reasons which make it important to proceed with the CCC program for Iraq.
5. Prior to commitment of a second tranche under the Iraq program, the *Agriculture Department* will submit a written report to the NAC detailing:
 - (a) the nature and operation of the safeguards and controls established in connection with the Iraq program in particular;
 - (b) the steps taken to tighten the monitoring and enforcement of its export credit guarantee programs; and
 - (c) developments in the investigations of the ENL scandal.

Any significant developments with respect to the ENL investigations that may have ramifications for the Iraq program will be reported to the NAC as soon as they become known.



DEPARTMENT OF STATE
Washington 25 2050

S/S 0416912

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June 12, 1984

Copies to:

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84 JUN 12 P9 24
MEMORANDUM FOR MR. DONALD P. GREGG
THE WHITE HOUSE

NSA Subject: Eximbank Financing for Iraqi Export Pipelines
ED

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(chs) Attached is a background paper, prepared at the request of the Vice-President's staff, on the status of the proposed Iraqi oil export pipelines and suggested talking points for possible use by the Vice President in calling Eximbank Board Chairman William Draper concerning Exim financing.

Charles Hill
Executive Secretary

Attachments:

1. Background Paper
2. Talking Points

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BACKGROUND PAPER

STATUS OF IRAQI EXPORT PIPELINES

Iraq has agreement in principle with both Jordan and Saudi Arabia to build separate oil export pipelines and has asked US firms to take the lead in both projects. Both are moving forward slowly, however, because of delays in arranging financing as well as some apparent indecision on the part of the Iraqi and Saudi Governments.

Bechtel has had detailed financial and technical discussions with an Iraqi-Jordanian Joint Commission on the \$1 billion 1 million barrel per day line to Aqaba. Recently, the Commission asked Bechtel to revise its proposal to maximize US official and private participation and present the new version by June 25. In keeping with this request, Bechtel has now applied to Eximbank for a preliminary commitment of financing for up to \$570 million in US goods and services and has urged Exim to act on this request at its June 19 Board meeting (Eximbank would cover 85 percent of the amount, or up to about \$500 million.) Bechtel is seeking financing for most of the remainder from Exim's French and British counterparts.

The Iraqi-Jordanian effort to maximize US participation is in part due to concerns over possible Israeli interference with the planning, construction and operation of the line, which would terminate within a few miles of the Israeli port of Eilat. We have advised the Israelis of our interest in seeing this line operate and they have raised no military or political objections, but have noted the need for adequate environmental safeguards.

Iraq has also publicly and privately described this project as a major test of US intentions toward it. Jordan enthusiastically supports this project which would provide additional employment and continuing revenues.

In the case of the proposed link to the Saudi East-West pipeline, Brown & Root has a contract with Iraq to design and manage this \$800 million 500,000 b/d project. The company has prepared an application for Exim financing of its \$35 million service contract but has delayed submitting it while it attempts to meet an Exim request for external, i.e. Saudi, guarantees. Construction of this line presents a number of potential problems to the Saudis and their commitment to it appears lukewarm at best; while they have not obstructed preliminary work, they have also not facilitated it, and there has been no sign of Saudi government willingness to provide financing.

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Eximbank support is likely to be a crucial component, particularly for the Aqaba line. Exim's policy to date has been to disapprove medium and long term financing for US goods and services for Iraq in the absence of external security arrangements because of doubts regarding repayment prospects. Following recent discussions with Exim Chairman Draper and his staff, however, Bechtel believes they are favorably disposed towards the project and Bechtel's application, which would include only about \$50 million in Iraqi risk with the remainder backed by a Jordanian government guarantee. (All of Brown & Root's request would be for Iraqi risk.) The Aqaba project would be one of the largest single commitments ever made by the Bank and would far exceed its current exposure in Jordan.

While expressions of interest and support made to Eximbank at this time would necessarily focus on Bechtel's application regarding the line to Aqaba, we do not regard the two projects as mutually exclusive. Both would be beneficial.

Given the importance of these projects to our overall policies in the region, Deputy Secretary Dan is calling Mr. Draper to reiterate our foreign policy interests. (The Secretary has not been involved because of his previous association with Bechtel.) We understand that National Security Advisor McFarlane may also call Draper. A call by the Vice President would be particularly useful in confirming the Administration's support for these projects. (Suggested talking points for such a call are attached.)

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TALKING POINTS

EXIM FINANCING FOR IRAQI PIPELINES

--The war between Iraq and Iran directly affects our vital interests in the Middle East and particularly in the Persian Gulf.

--Our objective is to bring the war to a negotiated end in which neither belligerent is dominant and the sovereignty of both is preserved. We believe that victory by either side would have a serious destabilizing effect on the region.

--At the present time, Iran is the intransigent party, unwilling to negotiate in part because it believes it can win in a war of attrition. We must therefore seek means to bolster Iraq's ability and resolve to withstand Iranian attacks as well as to convince Iran that continuing hostilities are useless.

--One such means would be the early initiation of construction and rapid completion and operation of additional export pipelines for Iraq's large oil reserves.

--Eximbank could play a crucial role in our efforts in the region. Early and favorable action on applications for Exim financing for these pipeline projects would be clear and very welcome evidence of US commitment to these objectives.

--US suppliers of services and equipment would benefit and with the completion of these pipelines, we would be less dependent on oil shipped through the Persian Gulf.

--Finally, operation of a pipeline to Aqaba could contribute to stability in the region by promoting at least tacit cooperation in the region.

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ACTION MEMORANDUM

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**SECRET**

83 M216 A6-52

TO: The Secretary

FROM: 28 - Richard McCormack *RM*

SUBJECT: US Credit Possibilities for Iraq

14 APR 83

ISSUE FOR DECISION

Whether to approve the attached cable (Tab A) outlining the limited possibilities for U.S. financial support for exports to Iraq.

ESSENTIAL FACTORS

In your February 14 meeting with Iraqi Minister of State Hammadi you undertook to provide Iraq information on official U.S. financing possibilities in support of U.S. exports to Iraq.

Iraq's financial position has gradually worsened since the beginning of the war in 1980 and is likely to grow more serious over the next six months. With reduced, although still substantial, aid from the Gulf, Iraq faces a current account short-fall of as much as \$10 billion this year. This situation undoubtedly motivated Hammadi to mention to you that the US should consider providing credits, loans and technical cooperation to support U.S. exports to Iraq, which have approached one billion dollars in each of the past two years.

ANALYSIS OF OPTIONS

There are two possibilities for US official credit for Iraq: (a) Eximbank programs; (b) CCC blended credits or guarantees for agricultural exports. Secondly, the US attitude in the IMF could affect Iraq's ability to obtain access to IMF resources. Finally, although commercial bank financing is beyond USG control, we could take some minor steps in support of Iraq's prospects in private credit markets.

A. Eximbank Programs

Eximbank is discouraging the few inquiries from US exporters regarding Iraq because of the war's effect on Iraq's economy. This decision was based upon the Export-Import Bank Act requirement that there be "a reasonable assurance of repayment". Other official credit agencies have informed Exim of payment and contract problems.

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Equally problematic is section 520 of the Foreign Assistance Appropriations Act of 1979 which prohibits Eximbank funding to any government which harbors terrorists. L has concluded that if an Iraqi government entity were involved in an Eximbank transaction, then the question of whether Iraq was harboring terrorists would have to be decided. However, an area of ambiguity exists with respect to the issuance of FCIA insurance for the benefit of a U.S. exporter or U.S. bank where the importer is a private foreign national.

Section 520 language originated in a 1977 amendment proposed by Senator Heinz. With the Eximbank Act up for renewal this year, a section 520 case, on the heels of a Chaffee Amendment determination for Argentina, could galvanize Congressional support to circumscribe the Administration's flexibility to ensure that Exim loans are consistent with our foreign policy. Because Heinz will be a key Senator on the Eximbank renewal we would hope to avoid a section 520 case. Given legislative requirements and Congressional sensitivity, we have asked Eximbank to refer any applications involving Iraq to State before taking action.

B. CCC Blended Credit Program

Based in part on the opinion of the AID General Counsel's office, L has concluded that there are no FAA or other pertinent statutes which specifically bar a CCC program for Iraq. In December, USDA approved \$210 million in CCC credit guarantees for Iraqi imports of U.S. agricultural products. On March 9, USDA announced a CCC blended credit package, totaling \$230 million, for a range of U.S. agricultural exports. State successfully opposed a proposal to raise the quantity of wheat in the package (and increase the total package to \$250 million), citing the need to avoid further angering Canada, a non-subsidizing exporter of wheat. Canada has complained that our blended credit package with Iraq has affected their non-subsidized cash wheat market there. Although Agriculture has received Iraqi assurances that they will purchase the minimum amounts of Canadian wheat required under their long term agreement with the GOC, the Canadians have told us that the Iraqis have not signed any new contracts for wheat deliveries for this year and that old contracts also have not been picked up. We can expect further protest from Ottawa.

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C. U.S. Vote in the IMF

IMF assistance may be appropriate for Iraq's current balance of payment problems. We could give no blanket commitment to support Iraqi applications, since our decisions are made on the viability of individual loans. Furthermore, legislation requiring that we "work in opposition" to any extension of IMF financial or technical assistance to any country that harbors terrorists would be an additional constraint. For these reasons and because we would not want Iraq to tell the IMF the U.S. in any way suggested it approach the Fund, we have not included this subject in the cable.

D. Commercial Financing:

The Iraqis probably doubt disclaimers that the USG cannot swing loans for Iraq through friends in the private sector. We might remind the Iraqis that the private sector takes into account the state of political relations in making its credit determinations. We could offer to arrange consultations between Iraqi government financial officials and U.S. government and private international financial experts.

RECOMMENDATION:

That you approve the attached cable which instructs US Interest Section Chief Eagleton to inform the Iraqis what we have done on CCC credits, explains the constraints on Eximbank credits to Iraq and reiterates that the U.S. private sector is influenced by the overall state of our relations.

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SECRET

Special Order - March 3, 1992

CCC and the Pending Payment to BNL

- Background
- Pending CCC payment to BNL

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March 3, 1992

MY ADVICE TO THE PRIVILEGED ORDERS

The SPEAKER pro tempore (Mr. BACCHUS). Under a previous order of the House, the gentleman from Texas (Mr. GONZALEZ) is recognized for 60 minutes.

Mr. GONZALEZ. Yesterday, Mr. Speaker, I reported on the Commodity Credit Corporation export promotion program that inured to the benefit of Iraq, and its arms buildup and its ability to wage war in the Middle East. I also illustrated, and I placed in the Record, which was printed and delivered to the Members, or accessible to the Members, today, the documentation that reflects these transactions and illustrated how the Bush administration used the CCC Program as a foreign policy tool, as well as the Export-Import Bank. I showed how the Banco Nazionale della Vordo, the Italian bank agency in Georgia, or, for brevity's sake, and BNL scandal, affected that program and, as well, the United States national policy, at least under this administration, toward Iraq. I also shed light on Secretary Baker and Deputy Secretary Eagleburger, that is, Deputy Secretary of State Eagleburger, in his role in prodding the National Advisory Council to approve the \$1 billion in CCC Programs for Iraq in November 1989, and I revealed that, prior to the NAC decision, Secretary Baker met with the Iraqi Ambassador, Tariq Aziz, in October of that year to discuss the BNL scandal and the BCC Program.

Now we talk here about budget imbalances and the like. How in the world can we justify the parsimony with which the same administration and a good segment of the Congress, I must admit quite regrettably, deals with the domestic needs and our own ability to endure as a viable nation, let alone as a leader of the world when, so cavalierly, not thousands, or hundreds of thousands, or millions, but billions of dollars are paid for by the taxpayers, because all of these credit guarantees mean that, guaranteed by whom—the U.S. Government.

Well, what does that mean, the U.S. Government? The taxpayers. There is only one source of money for any government, and that is taxes, taxpayers. So, Mr. Speaker, today I want to follow through and report on some of the events that occurred immediately after the NAC decision of November 6, 1989.

I also mentioned yesterday that we have learned nothing, apparently, through the years. As I said last week, we are like the old Bourbon kings. We learn nothing and forget nothing. But we are supposed to be a democracy, and the fact is that we have not learned anything because even today as I am speaking, not only on a Middle East level, but in far distant regions of the world, in the Far East, we are getting involved in the same kind of transaction in which directly and indirectly we are funding nations and ac-

tivities that can very well imperil our national security tomorrow. Not next year, but tomorrow.

Now, as I said in yesterday's report, in November 1989, after intense lobbying by the State Department—and I have those documentations in today's Record—the NAC decided to approve a \$1 billion CCC Program for Iraq.

It was decided at that time to offer the Iraqis in two tranches of \$500 million each these guarantees, and under the protest this is the reason why Secretary Baker met with the ambassador, Aziz, who was saying, "Hey, look. We thought we were friends. What do you mean you're just going to let us have \$500 million? We thought the deal was for a billion."

Actually it was more than that. The total amount of guaranteed credits just through the CCC alone, not including the Export-Import Bank, the Record will show amounted to \$5 billion, of which the taxpayer has ended up holding the bag for over \$2 billion. That is incredible, and yet it is true.

Now one reason is that our banking laws are of such a nature, and have been, that the national interest is not protected. The people, as in other areas, for instance interest rates, and I will not go into that now, but I am just using that as an illustration of how the American people are stripped naked from any defense in the very basic things such as the allocation of credit. Allocation of credit has been from the beginning of our nationhood the prime issue. It was the issue in the First Continental Congress, in the Second Continental Congress, and then after the adoption of the Constitution in 1789, and under the impulse of the Secretary of the Treasury, Alexander Hamilton, the formation of the first U.S. bank, that was a big issue.

Mr. Speaker, I say to my colleagues, "If you think mean things are being said about bankers as a class today, you ought to read what Thomas Jefferson said and a few of the other leaders of that day," and what was the issue? It was exactly that. Who is going to wield the power of allocation of credit to the Nation, to the people? And of course all through mankind's history that has been decided in a diverse manner and way.

But if we are talking about the greatest national interest, the greatest interest of the greatest number, then we have to go back to our roots, and we have to see how men like Jefferson did not capitulate as tragically as other leaders in the 20th century have particularly, and certainly since the adoption of the Federal Reserve Act of 1913, and more certainly in the latter two or three decades and when we emerged from the hot-shooting phase of World War II.

Mr. Speaker, I used to say, and we at the end of World War II used to say, "Well, there is no peace treaty," and there still is not, but we had other things happen. We had the emergence

of some of the defeated and conquered nations who today financially are in positions of tremendous strength.

□ 1705

All through history when an individual, as well as the collective body known as a nation, forsakes its beginnings, forgets its hard beginnings, and it then sells or trades its inheritance "for a mess of pottage" in the words of the scriptures, there is only one thing happening, and that is to the detriment of that nation's interest.

When we add to that the lack of vision, and again, in the words of the Testament, where a nation has no vision or where there is no vision, "a nation perishes."

We have gone down a dangerous road to the point where at this particular time, and with little incidents such as these Iraqi transactions, guaranteed by taxpayers, incredibly, and still going on, in fact, more than ever. Let us look at the commitments the Export-Import Bank has made just within the last 6 or 7 months with Kuwait, with the tremendous wealth that Kuwait is supposed to have, and we will see that we have learned nothing.

But the banking laws, who would think, as so many of my citizens did not want to think just a few years ago, when they would ask me and say, "How come we have prime interest rates of 20 percent and 21 percent? We thought there was a law against usury," I would say, "No, there is not. On the national level, the limitation we had from the beginning of the Nation was done away with in 1983 with the National Currency Act of that year."

That was right after Lincoln died. When Lincoln died, that problem was the one that was uppermost in his mind, because he knew what the forces were and what was shaping up.

Nevertheless, be that as it might, it surprised many of my fellow citizens to discover that there was no such thing. In fact, it is the other way around. The States that had anti-usury or interest rate controls have, all with the exception of about two or three at the most, have been done in because of the Federal Government and its policies in removing any kind of interest rates.

Going back to the origins, and that big, big argument, who allocates credit, today who does allocate credit? Is it the Congress? Is it the President or the elected people who are supposed to be the agents of the people en masse? No, not at all. Those forces are now what they call, in fancy parlance, exogenous. They are not within the control of the people. Therefore, we do not have to be prophets to know we are in deep trouble.

To continue with this specific case, because it is revelatory of the malaise and of the illness, and at the bottom of it, the failure of the Congress, and

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rightly or wrongly, of the committee, such as the Committee on Banking, Finance and Urban Affairs that I have the honor to chair. It has been an anguishing at least 30 years that I have been here in the Congress, that I have belonged to the committee, and I cannot begin to tell the anguish over the almost demoralizing things that I could see palpably happening.

Fortunately, I had the sense of accountability to record that over the years in the record known as our CONGRESSIONAL RECORD. What I say now is in hindsight. It is what was obvious to anybody sitting on this committee charged with the sense of trust.

In fact, down through the years in the American corpus of law we have the phrase known as "Custal que trust." That is considered as the trust that one who has the power of making and manufacturing money, which under our fractional system the bankers do. A bank can manufacture through the issuance of credit 10 times the amount of money it actually has in deposits. It always has, through our fractional currency system or reserve system, fractional reserve system.

In our tradition that is known as a trust. It used to be, and the law is still there and that phrase is still there, that banks were chartered. If one wanted to form a national bank, one then applied to the Comptroller of the Currency, who incidentally is not appropriated for by the Congress. The Comptroller of the Currency operates on the fees and monies he derived from the examination of the banks under his jurisdiction, so they have tended to be quite independent all through the years. I have had a series of Comptrollers come before the committee. If we lose the control, it is not there. The reason I am particularly sensitive to the need for adequate legislation is that despite the amendments we tacked onto the banking bill last November in this area known as the international banking law area, the reason I am continuing this is because I do not think it is still sufficient to provide that oversight and that accountability that ought to be on the part of our regulatory authorities acting in the name of the national interest of over \$800 billion of this kind of international moneys in our country, high-velocity money.

As I said yesterday, just a small chunk of it has high leverage, and it is at the bottom of the substantial drug money laundering, narcotics and obscenity that our country is flagellated with, and which sooner or later is going to have to be plugged if we want to have any real control on that kind of crime.

In fact, it was this type of a bank that was able to get its charter in an area that, as a result of the First International Banking Act in 1970, which followed the hearings in my city and my district in 1970 that I caused, in fact, they were the only ones. They

were so regulatory in the practices then, which incidentally, now, have been so much publicized in the last 3 or 4 years, that were evident with this high-velocity money coming across the border at will, with no accountability or anything.

It took 3 years. It was not until 1973, 3 years after the 1970 hearings in San Antonio, that we finally got the first smattering of an international banking law.

□ 1715

Can you believe that? It was not until 1973. Then I wanted to amend the law further. Because when we finally got it in 1973, I was not chairman, and I was not chairman of the subcommittee that had jurisdiction. I had a hard time persuading them to go to hearings in San Antonio, so I did not have much of what they call around here clout in shaping the final outcome, which was a watered down version of what I had first proposed.

Through the years since 1973, I have been bringing to the attention of the subsequent chairmen of the committee we need to reinforce that act. The only reason we got the modicum of amendments last year was because of in November the BCCI scandals. I doubt seriously if we could have gotten anything about BCCI scandals.

But has it been adequately addressed? No. You still have agency banks like this Atlanta BNL. What is an agency bank? An agency bank is really a branch of an otherwise foreign headquartered bank. In this case, the BNL, the headquarters for the U.S. operation was in New York, where they had been operating for a few years. But then they obtained agency charters from the States of Georgia, Florida, Illinois, and California.

In the meanwhile, I was focusing on trying to get the Federal Reserve Board to give me some statistics on the flow of cash transactions, because I knew they were tied in to the illicit narcotics business. I could not get anything as an individual member of the Banking Committee.

It was not until the chairman in 1981, that finally, in the name of the committee, we got some information. And it was highly revealing. Even though it was fragmentary, it was not as complete as it should have been, it was very revealing.

But even then we could not get the law amended to take care of what was obviously an intimate transaction between banking activities and particularly those that were not supervised by either the Federal Reserve, which is supposed to have prime responsibility, or the State chartering commissions.

In the case of the BNL in Georgia, the State commission, after the scandal, came to us and said, "Well, we did what we could, but we had no idea because they cooked the books."

When I said, "Well, what responsibility do you have toward dovetailing your auditing and examination with the Federal Reserve Board?"

"Well, it all depends," was the answer. And I got the same answer from the Federal Reserve Board.

But the net result is that even today there is no agency, State or Federal, that can give the American people the accounting that they ought to have, much less the committee that are charged with the responsibility of either the substantive legislative responsibility, such as the Banking Committee of the House of Representatives, and the one in the Senate. It is a responsibility that is inescapable, because in our case it is our custal que trust.

It is a trust. It is not a job, it is a trust we hold in trust temporarily during the period of time in which our constituents may we choose you to represent us, and that is all.

Of course, we are going to rise and we are going to speak forth. I may with a great deal of address have we been helped? No. We started 3 years ago almost and could not get much attention, even on the committee level.

Then when the thing got hot after the newspaper started getting on the scandal, and then the Italian Government, because the other thing I brought out consistently, and what is ignored even here in our country, and that is these banks known as foreign banks, the overwhelming majority of them are owned by their respective governments. They are not like theirs. So the BNL is really owned by the Italian Government.

It was not until it hit home in Rome that the Italian Government was going to be exposed to an equal loss of around \$3 billion, like the taxpayer in the United States, that then the Senate, to its glory in Italy, the Italian National Senate, with the distinguished chairman, Senator Costa, then contacted me.

But in the meanwhile, the Committee on Banking, which to its great honor and sense of responsibility acceded to my request and issued over 100 subpoenas to the Federal Reserve Board, the State Department, MKS Bank, the Agriculture Department, CIA, and what do we get? We get a letter, after I refused to meet privately with the Attorney General of the United States, saying, "Stop your investigation. We don't think you ought to continue these investigatory hearings."

I wrote him a letter and set forth the constitutional applicability in this case. This is our Attorney General, Thornburgh. Were we helped? No. Are we still chartered? Yes. We still cannot get some of the subpoenaed documents.

Now, some of us, this great independent Federal Reserve Board, independent from Congress, from Congress, the President, all of a sudden

says, as meek as a meowing kitten. "Oh, we cannot give you these documents, because the Attorney General says we shouldn't."

Well, to his everlasting glory, Senator Carter gave them to us. But we still have some that have been denied the Italians and been denied us, right now, as I speak.

So where are we? After all this great publicity, and outcry, and scandal, what? We still have the challenge of doing something about it.

I am proud to say that the Committee on Banking, Finance and Urban Affairs of the U.S. House of Representatives is committed to doing that, and will persist, and will continue. This is, of course, with the help and union of the majority, overwhelming, of the committee. In fact, the votes were unanimous. We got the required majority to issue the subpoenas with no dissent. So that is our big comforting ray of hope.

But it seems to me that there should be no resistance, whether it is out of fear of embarrassment because of what happened 3 years ago. We understand that 3 years ago you had a different diplomatic format. We do not understand why anybody—Iraq or anybody else—would have the taxpayer exposed to billions of dollars worth of tax responsibility. That I do not understand now or at any time.

But I do understand the diplomatic dilemmas then. But what about now? You have the same dilemmas in other countries.

We are doing the same thing now with Iran, that just recently released the last hostages. The reason they did was again based on a banking matter, which was at the bottom of the whole trouble when the first hostages were taken in 1979. That was the \$10 billion involving one of our biggest banks in our country, where the former Secretary of State went back on a stipend as a consultant, and naturally it involved the money that Iran and the revolutionary government of Iran felt was theirs and ought to go back.

So they did something that had not happened since the Middle Ages, they took hostages.

But has the American people ever been told? No. I did my best to get the chairman then to have an investigating committee. In fact, I was the first one after the hostages taking to recommend such things as a freezing of assets.

But even that was done through convincing on the part of that large bank that had this \$10 billion exposure, even though that \$10 billion exposure was really a syndicated exposure. That is a financial word meaning they had partners, foreign banks, all the way from Britain to France and everywhere else that were involved.

□ 1725

But the freezing of these assets was done in such a way that it was done to perpetuate not only the hostage dif-

culties but everything else going with it. And it was not until one of the last payments was made just recently and other yet to be determined goodies, such as arms, that the last hostages were released, but not until then.

As I said, at the bottom of everything is banking and finance, everything. So we had Secretary Baker hearing this Ambassador from Iraq saying, "How dare you do this to your buddies." And the Secretary said, "No, no, no, no, you are going to get this whole billion dollars this time."

Of course, the exposure turned out to be twice, over twice that amount. But on that particular occasion, the Iraqis were afraid of the revelations that were beginning to come out and which caused our attention.

How do my colleagues thing I started the interest of the committee staff to look into this? Because in 1988, in the Wall Street Journal there was a little article saying about a letter of credit, \$3 billion, Atlanta Bank. And I said, \$3 billion, Atlanta. And I could not get any answers. But shortly after that the FBI suddenly decides that something has gone wrong and sends in that Atlanta branch. And that is why I want to kind of regurgitate that a bit.

All we know is that we had high-ranking Iraqi officials making repeated trips to the U.S. Embassy in Baghdad and even to the United States to visit key administration policymakers. We had, once President Reagan took Iraq off of the list of terrorist nations in 1983, the sluice gates were open for what, American interests trade promotion with Iraq. And then with the very agile help of Mr. Kissinger and associates, we had over 80 of our leading corporations doing substantial business, forgetting that again, as in the case of government ownership of these banks, in these countries the minister of trade, or foment, or the economy, is also the minister of our equivalent of defense. In one particular instance there, for a couple of years, that happened to be Saddam Hussein's son-in-law. So that the credit base of the CCC and Eximbank credit guarantees were used to promote everything else, including the acquisition of chemicals used for atomic weaponry, nuclear weaponry, the Big Gun—the giant gun—the fellow that was developing that was assassinated in Belgium. He had gone a long way in assembling it, and a lot of that money came from the association of banks and consortiums that resulted from these guarantees of the ENL.

Lobbying by the U.S. agriculture community was also very intense. With a \$500 million tranche in U.S. agricultural sales at stake, the members of the Committee on Agriculture bombarded the administration policymakers to ensure the release of the second installment of the \$600 million of the CCC program.

As the documents obtained by the committee indicate, and I include

those in this day's speech, the Iraqis had a powerful ally in the State Department. At the end of 1989 and into 1990, indications that Saddam Hussein was becoming increasingly unstable were growing stronger. Among some of the other complaints, Saddam feared that Israel, the United States and several of the Arab emirates were engaged in a scheme to cripple Iraq financially.

Now, there is another thing we must keep in mind, sort of an overarching fact behind this whole thing, Iran, which at the time was at war with Iraq, is a non-Arabic country. Israel has been in a state of war with Iraq since before 1960, and is still in a state of war. These things should have made a difference while all of this scurrying and running about was going on, but it did not.

But Saddam Hussein says, "Wait a while, I think I am getting ganged up on."

Most of the major industrial nations had suspended their credit programs with Iraq, some of them because of Iraq's questionable ability to pay. Our law governing the Export-Import Bank, which our Committee on Banking, Finance and Urban Affairs had jurisdiction of, mandates that that is the key feature in extending these guarantees, the ability of that nation to repay. Unlike the Commodity Credit Corporation dictates a program, and this is the only thing that halfway saved the Export-Import Bank from getting a greater exposure.

As it was, even there on that level the taxpayers will be out, because of these guarantees to Iraq, on the Export-Import level, about \$200 million.

Now, \$200 million, some people do not think that is much. Well, I am old-fashioned enough to think it is a tremendous amount, horrendous amount. I still find it very difficult to accept the concept of a trillion dollars.

I used to think it was kind of mind-boggling to think of a billion dollars, but today it seems like, well, \$200 million, more or less.

But I am chairman of the subcommittee on Housing and Community Development, and how do my colleagues think I feel when we cannot get this administration or even the leadership of our Congress to say, all right, we will provide what we should have provided in 1980, a reasonable modicum of help, which would be less than the taxpayers' exposures on the letter of credit to Iraq. For what? For community development. To once again pay attention to our crumbling infrastructure, our water systems, sewage systems.

The city of New York, for instance—alone—cannot attend the fact that it loses and wastes more water each day than it consumes because it has a delivery system that dates back 110 to 125 years ago, wooden pipes.

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Now, the city of New York—and even with the help of the State of New York—does not have the resources. This is a national dilemma. We have taken this committee, in the name of the committee and the subcommittee this year, beginning on January 7, we started in Bridgeport, CT, where last year an effort was made by the city governors then to declare bankruptcy.

Can my colleagues imagine that? Today over 65 percent of our cities are in financial distress. And is this where the administration, the President and the Congress is targeting? No. We are having to fight, as if we are asking for the blood money that was so easily shed for countries like Iraq. Not to mention others, like believe it or not, China.

What are we going to do there, where the Chinese have just thumbed their nose at our distinguished leaders who go there. Secretary Baker was there just last November saying,

Now, boys, you are not supposed to be selling these arms that we loaned you to make like the Silkworm missile, which was the one that Iraq and Iran got.

□ 1735

And incidentally, now that Syria is supposed to be a reformed nation, as of about 6 or 7 months ago Syria got 300 new, improved Scuds. From whom? North Korea. North Korea or China?

What about the Silkworm? How could China produce that? We gave them the formula. We have had three Secretaries of Defense and three different Presidents go over there. I think what Secretary Baker thinks is that maybe they can get a more gentler and kinder Communist out of China.

I think it is tragic. I think it is a terrible travesty. I think it is almost criminal negligence, as I think these loan guarantees to Iraq should be considered. Just look where it has ended us up, in the loss of lives, war, an affront that is still there. We have not withdrawn totally from those sands, treacherous as they have been through the centuries. We still have considerable armament and personnel.

In Panama. We have forgotten about that. We have two-thirds of the troops in Panama that we had at the height of the invasion, and we had better not remove them. Drugs, we have had twice the volume of Silk drug trading through Panama than when old General Noriega was in charge. Why? Because we installed the President, and the First Vice President, and the Second Vice President, all of whom have been bankers in Panama involved in drug money laundering. We put them in charge of these people. We installed that government, and the reason we have over 15,000 soldiers there is that the moment we remove them, they are gone, and also no American life will be safe.

What about the Middle East? How much armament do we still have there in these sands? I ask my colleagues, if they want to know, call the research service and they will tell you. Substantial. How many forces do we still have there, active duty? I think quite a bit. Compared to the \$40,000, more or less that we had at the peak, maybe not. But what does that mean? It means we are embedded in that dry quicksand of the Middle East, and at a cost to us. All of this cavalier nonsense that these other countries have saved and defrayed the cost is nonsense. I will remind my colleagues that in the last dire supplemental appropriation, emergency supplemental appropriation you voted for \$300 billion plus for Desert Storm. That is just an installment. That is American taxpayers. That did not come from Germany and Japan and the other countries that are supposed to have contributed.

We are still mired. This time it is not wet quicksand, it is dry quicksand. But it is those sands that have buried empires before, hundreds and hundreds of years through, and will likely bury us if we do not stop.

At the end of 1989 and late 1990 indications that Saddam Hussein had become increasingly unstable, because he was shaky there, were clear. Iraq's financial condition had deteriorated to the point where it started to accumulate arrears in its paybacks, and in particular the CCC program. The Eximbank, to its credit, suspended at that point in late 1989 for a temporary default on its obligations at the bank. But Iraq was also in arrears with other creditor nations, some of whom we had involved in helping Iraq. Iraq had driven itself to the brink of bankruptcy, and the second \$500 million installment of the CCC program offered Iraq a financial oasis in that desert of answered creditors.

As the United States-Iraq relations deteriorated in 1990, remember that finally on August 2, I do not see how we could ever have thought that Saddam Hussein would not think that his long protested claim to especially those areas in Kuwait were not going to be asserted if we had done everything to show that we are for him. The bad part is that on the other hand President Reagan was also lending assistance to its enemy, Iran. Remember Iran-Contra? And the TOW missiles we sent over? What cupidity could have governed the minds of our leaders to think either one of these contestants would not be cynical and knowledgeable of the fact we were aiding both sides?

The State Department and White House seal to assist Saddam Hussein was clearly being accelerated during 1990. That is before August 2. I will report more on this at a later time because there is more documentation that needs to be placed in the Record, as I have done all along.

I would like to now discuss the important issue of the pending \$500 mil-

lion CCC payment to ENL and whether or not the taxpayer should be stuck with this bill. ENL was the largest participant in the CCC program, because for letters of credit you need your bank. Everybody needs a bank. As I pointed out, even at the beginning of our country, the first Continental Congress they had to charter the North American bank. The big issue was that the bankers did not want to come into Philadelphia unless they could charge interest rates that Jefferson said you are not going to get, and it was not until Jefferson said you are not going to get any more than 6 percent that they finally said all right, we will come in.

There is another, modern day sequel to that. All during World War II Franklin Roosevelt, waging world war, utilizing over 46 percent of our total gross national product for the conduct and the waging of the war and the winning of it, on the Federal level never paid more than 2 percent interest. How could that be done? Why is it the Government pays as much as, and it has reached the point where it was paying as much as 17 percent on long-term bills and notes? Preposterous. But why? There is a reason. It was not accidental, it was not happenstance. It is because at least Franklin Roosevelt had the leadership ability to surround himself with a Secretary of the Treasury who knew what to do. So when the first borrowing started with the bonds and the bankers said no, we are not going to get into that, you do not pay enough, what did Morgenthau do? The President got excited and worried and said, "Secretary, what do we do?" He said that the Federal Reserve Board Act at that time provided what it said at the beginning of the Federal Reserve Board Act, which says that the Federal Reserve Board is to be the fiscal agent of the U.S. Treasury. Of course, it is no longer the fiscal agent of the U.S. Treasury. It is the other way around. Take any dollar you have got, or \$3, or \$10 and see what it says. It says, "Federal Reserve note." It used to be, "U.S. Treasury note." There is a big difference in that, and this is why we are now sunk in what a predecessor speaker said earlier today was this monstrous interest payback. Of course, our Government is paying compound interest.

In our history we had more noble, dedicated and truly loyal to the public interest leaders like Franklin Roosevelt. And I just want to make this note for my colleagues who will see in the Record what was said here previously about this egregious interest burden, that all during World War II in fact it did not even average 2 percent, it was below 2 percent, and there were reasons. That is they stood up to those who no matter how much they had will always want more.

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Because the name of the game is always power, and when you deposit power to allocate credit to a certain segment of the country and that segment has to be the one that is in that business of making money, and then turn over the manufacturing of the money to them, because the Federal Reserve Board is not a Federal agency, it is not a Federal agency, I repeat, it is the creature of the commercial banking system of the United States. That is what it is pure and simple. That is the one that is making the decisions directly and indirectly.

So here we have BNL, the bank, through its agency. And what is an agency? An agency bank, unlike the definition of a branch, is that it does not do regular banking business. It does not take any deposits, thank God it does not. The Federal Reserve Board did not give full banking facilities to the BCCI. Other less fortunate countries, including England, which incidentally had not had a big, major bank failure in 100 years until BCCI, because once you part with that power and you remove it from the control of the people through its elected representatives and agents who, in a cost-effective trust, hold that power.

None of us in our system has a quick claim deed on our job, thank God. But do the people still remain? Well, I think that is what our big, and it used to be the \$44 question, but that was during the Depression. But that phrase is still good. That is the question. Well, that will be determined by us, maybe not individually, but certainly the majority here and now, right at the time that we are asked to reaffirm the basis upon which this country was founded 200 years ago.

The answer will be written as we go along, not in the year 2000. Year 2000 is today. What happens in 2000 and anytime after that depends on what we do or do not do now and tomorrow and the day after before 2000.

In February 1991, the Department of Justice, acting through the U.S. attorney's office for the Northern District of Georgia, indicted 16 defendants. Now, for months they were saying, "Look, give us time, but in the meantime, do not do anything. Do not dare have hearings. Do not do this. Do not do that. Above all, stop." And then I had to read Supreme Court decisions after Supreme Court decisions, because the Congress has abdicated its constitutional grants of power except one, maybe two, still remaining, and one of them is the power to know, and so Supreme Court decisions after Supreme Court decisions had halted that notwithstanding a pending criminal investigation or criminal law procedure or another investigation elsewhere, the Congress has unimpeded and supreme right to know. It is investigatory power, in other words.

But the investigatory power is not unrestrained. We do not have the

right, as some tried in the 1980's, to run roughshod just because we have the right to investigate.

We have rules now that we obey rigorously in the Committee on Banking and Urban Affairs to govern that, that we do not abuse anybody's right.

But the power to seek and obtain information is supreme, but information for what purpose, to legislate. You must have a legislative purpose, and that is what we are trying to do.

Mr. Speaker, with that, and noticing the arrival of our distinguished colleague, the ranking member of the Committee on Rules, I am including in the Record the documentation in support of the statements made here today, and will announce that those documents are at the end of this special order.

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON BANKING, FINANCE
AND URBAN AFFAIRS

Washington, DC, January 31, 1992.

Hon. EDWARD MANSUETI,
Secretary, Department of Agriculture, Washington, DC.

Dear Mr. Secretary: I am writing to you concerning Iraq's participation in the Department of Agriculture's Export Credit Guarantee Program and Intermediate Export Credit Guarantee Program, referred to as the GEM-102 and GEM-103 programs, respectively.

Specifically, I am interested in the status of the payment of the guarantees to the Banca Nazionale del Lavoro (BNL) or its agency operation in Atlanta known as BNL-Atlanta, by the Agriculture Department's Commodity Credit Corporation (CCC). Please provide the Committee with the following information:

1. A summary of all claims filed under the CCC guarantee programs for Iraq including the total U.S. exposure;

2. The total amount of all payments that have been made to date on claims that were filed under the CCC program for Iraq;

3. The total amount of all claims filed by BNL under the CCC program, including the original principal amount owed to BNL and the amount of accrued interest and the rate used to calculate the interest;

4. The total amount of all payments that have been made on claims under the CCC program that were filed by BNL; and

5. Any and all additional documents the Department of Agriculture has that are relevant to this matter.

Additionally, it has come to my attention that the Agriculture Department recently solicited opinions from various agencies regarding the payment of these guarantees. Please provide the Committee with all documents, including those generated by the other agencies, related to the Department of Agriculture's consideration of BNL claims.

Finally, please provide the Committee with the Agriculture Department's position concerning the payment of these guarantees.

Thank you for your prompt attention to this matter. If you have any questions, please call Ms. Debra Carr at 225-2294.

Sincerely,

Edward B. Gossman,
Chairman.

OCT 88.

FM AMEMBASSY ROME
TO SECSTATE WASHDC. TREAS DEPT
WASHINGTON.

Subject: Banca Nazionale del Lavoro
Corrupt re Atlanta Branch.

Ref: Rome.

1. Confidential—entire text.

2. Summary: The chairman and the director general of Banca Nazionale del Lavoro (BNL) called on Ambassador to express their concerns about developments in the BNL-Atlanta affair. They suggested that the matter should be raised to a political level, and indicated their desire to cooperate fully with USG authorities while at the same time making it fairly clear they want to achieve some kind of damage control.

Ambassador said he would pass on their concerns but could not otherwise be helpful with or comment on a matter under criminal investigation. Separately, Treasury Minister Carli has blocked an effort by opposition senators to conduct an investigation into the BNL-Atlanta affair. End summary.

3. The chairman of Banca Nazionale del Lavoro, Giampaolo Cantoni, and the director general, Paolo Savona, called on the Ambassador on October 19. The meeting was at Cantoni's request, made during the return flight from the U.S. with President Cosiga. Both Cantoni and Savona had been in the U.S. with President Cosiga's delegation.

4. Cantoni expressed concerns about prospective developments in the BNL-Atlanta affair. He said BNL's U.S. lawyers were using him to raise the issue to a "political" level. He said that his U.S. lawyers thought that charges would be filed under the Rice Act and that BNL and/or Iraq assets could be frozen. Savona was concerned about losing the CCC guarantee on roughly one billion dollars of BNL Atlanta's three billion dollar exposure. The men alluded to legislation under consideration in Congress providing for USG credits to Iraq being affected by the investigation/charges. Cantoni said FBI agents remained in the Atlanta branch, or had sealed the books. He also maintained that the ex-Atlanta branch manager Dragoul was available and willing to testify to appropriate officials.

5. Cantoni and Savona both made the point that they were willing and anxious to cooperate with USG authorities. They also said their U.S. lawyers would be in Rome on October 28.

6. The Ambassador said he would pass on the concerns of BNL and their willingness to cooperate to Washington, but that he was unable to comment or otherwise be helpful on a matter under criminal investigation.

7. On a separate note, Treasury Minister Carli responded negatively on October 24 to a request by opposition senators to conduct an investigation into the BNL-Atlanta affair. Carli said that a number of investigations by Italian and U.S. officials were underway. He also noted that bank secrecy laws impeded the bank of Italy from providing information to the Senate.

8. Comment:

The remarks on the need to raise this to a political level are interesting as the case has already become a political issue in Italy. The President has become involved as witnessed by the inclusion of Cantoni and Savona in his party in the U.S. Cantoni and Savona, while new to BNL, have close political connections. Cantoni to Carli and the Berlusconi, and Savona to Cosiga (a fellow Berlusconi) and to Carli, his mentor at the Bank of Italy and later at Confindustria. The Treasury is the majority shareholder of BNL.

March 3, 1992

CONGRESSIONAL RECORD — HOUSE

H 929

BNL is an upstart bank by Italian standards, dating only to 1913 and owing its growth to its role as the key bank for the Government in the 1920s and 30s. It continued to grow in the post-war period, but has been having problems in the past few years. The recently seated chairman, Mario Monti, has been engaged in an effort to pare down the staff of the bank and separate out some functions while at the same time increase the bank's capital. To achieve the latter, he worked out a deal where by the state-owned insurance agency, INA and the state pension system INPS would take the proceeds from the sale of shares in Credito and invest them in BNL. The result will be a capital increase that will reduce the Treasury's ownership from 75 percent to 36 percent. INA's also making a subordinated loan. The capital increase was approved by the BNL board in mid-October, and is to be presented to the shareholders (Treasury, INA, INPS plus a scattering of other, mostly public, institutions) on December 13.

BNL's reputation within the Italian banking community and even among its own staff has been suffering for some time. The BNL-Atlanta affairs, even if contained, will aggravate BNL's problems. Not the least of these are loans to Latin American countries. BNL is said to be one of the two largest lenders to Mexico and has been active in South America as well.

BROOKING.

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON BANKING, FINANCE
AND URBAN AFFAIRS.

Washington, DC February 25, 1992.
Hon. CHARLES BOWEN,
Comptroller General, U.S. General Accounting
Office, Washington, DC

DEAR COMPTROLLER: Chairman, Bowen: The Committee on Banking, Finance and Urban Affairs is conducting an investigation into the operations of the Banca Nazionale del Lavoro (BNL). Part of this investigation involves BNL participation in the Export-Import Bank (Eximbank) program for Iraq. The Committee requests your assistance with this investigation.

The Banking Committee has obtained numerous documents during its investigation that demonstrate that Iraq was not creditworthy, yet, was able to obtain Eximbank financing. The Export-Import Bank Act states that all transactions supported by the Bank shall "... in the judgment of the Board of Directors, offer reasonable assurance of repayment. ... The Committee is concerned that Eximbank extensions of credit to Iraq were approved in violation of this particular provision of its charter.

Accordingly, the Committee requests that the OAO investigate whether or not Eximbank extensions of credit to Iraq were properly given the above mentioned provision in its charter. Please make sure to examine the decision-making process used by the Eximbank to grant credit to Iraq. In addition, please determine the role the State Department and other "outside factors" played in the decision to grant credit to Iraq.

Thank you for your time and consideration. The Committee looks forward to the results of your investigation.

Sincerely,

HARRY B. CORDALE,
Chairman.

REPORT ON RESOLUTION PRO-
VIDING FOR CONSIDERATION
OF HOUSE CONCURRENT RES-
OLUTION 287, CONGRESSIONAL
BUDGET FOR U.S. GOVERN-
MENT FOR FISCAL YEARS 1993,
1994, 1995, 1996, AND 1997

Mr. DERRICK, from the Committee on Rules, submitted a privileged report (Rept. No. 102-451) on the resolution (H. Res. 386) providing for the consideration of the concurrent resolution (H. Con. Res. 287) setting forth the congressional budget for the U.S. Government for the fiscal years 1993, 1994, 1995, 1996, and 1997, which was referred to the House Calendar and ordered to be printed.

REPORT ON PROHIBITION OF
TUNA PRODUCTS SHIPMENTS—
MESSAGE FROM THE PRESI-
DENT OF THE UNITED STATES
(H. DOC. NO. 102-196)

The SPEAKER pro tempore (Mr. BACCHUS) laid before the House the following message from the President of the United States, which was read and, without objection, referred to the Committee on Merchant Marine and Fisheries and ordered to be printed:

To the Congress of the United States:

Pursuant to the provisions of subsection (b) of the Pelly Amendment to the Fishermen's Protective Act of 1967, as amended (22 U.S.C. 1978b), I am reporting to you that the Secretary of Commerce reported to me that shipments of yellowfin tuna or products derived from yellowfin tuna harvested by Venezuela in the eastern tropical Pacific Ocean (ETP) have been prohibited from the countries of Costa Rica, France, and Italy since June 25, 1991.

The Secretary's letter to me is deemed to be a certification for the purposes of subsection (a) of the Pelly Amendment. Subsection (a) requires that I consider and, at my discretion, order the prohibition of imports into the United States of fish and fish products from Costa Rica, France, and Italy to the extent that such prohibition is consistent with the General Agreement on Tariffs and Trade. Subsection (b) requires me to report to the Congress within 90 days following certification on the actions taken pursuant to the certification; if all fish imports have not been prohibited, the report must state the reasons for so doing.

After thorough review, I have determined that sanctions against Costa Rica, France, and Italy will not be imposed at this time while we continue to work toward an international dolphin conservation program in the ETP. Costa Rica, France, and Italy will continue to be certified. I will make further reports to you as developments warrant.

GEORGE BUSH,
THE WHITE HOUSE, March 2, 1992.

THE DEFENSE BUDGET

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Virginia (Mr. BATEMAN) is recognized for 5 minutes.

Mr. BATEMAN. Mr. Speaker, that the world is changing is axiomatic, but the changes of the last several years have been monumental in every sense of the word. The bipolar world divided between the democratic West and the Soviet bloc provided a certain sense of stability in international relations and gave people on both sides an identifiable threat against which to shape their national security structures. With the fall of the Berlin Wall, dissolution of the Warsaw Pact and the subsequent transformations in the Soviet Union—especially the aborted coup attempt of August 1991—the world as most of us have known it no longer exists.

Today, the world is no longer composed of two diametrically opposed blocs led respectively by Washington and Moscow. It is a world of crumbling empires and newly formed or independent countries. Relationships among old allies are marked by economic competition rather than the convergence of interests predicated upon a common threat. What this has meant for the United States is the disappearance of an old adversary against which its Armed Forces have been structured. Now we face threats which we cannot readily identify or quantify. These threats range from large-scale conventional conflict similar to last year's war in the Persian Gulf to the ongoing effort to stem the flow of narcotics across our borders. Given the turbulence and instability that are the norm we can safely proceed only on the basis of future threats that are varied and significant.

The Bush administration has responded to changes around the world by proposing to reduce defense spending by 30 percent. The number of soldiers, ships, planes, and tanks would be reduced by roughly this amount and the remaining forces restructured to better respond to the new world order. Such reductions would take into account changing international conditions and permit the maintenance of forces large and capable enough to respond to the myriad potential dangers that will always exist in a turbulent world.

Unfortunately, many voices in Washington are calling for defense cuts as much as 50 percent. Presidential candidates who have given little or no thought to the issue are reiterating what has become the slogan of the left—cut defense. Such reductions, I believe, would not be in the country's best interest. Defense spending as a percentage of total Federal spending is already decreasing to the lowest level since the 1930's. The notion that our country cannot support a military of 1.6 million is born of the excess of negative thinking about this country that

FLOOR STATEMENT OF HENRY B. GONZALES, CHAIRMAN
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
March 3, 1992

CCC AND THE PENDING PAYMENT TO BNL

 R 261517Z OCT 89
 FM AMEMBASSY ROME
 TO SECSTATE WASHDC
 TREAS DEPT WASHDC
 INFO DEPT JUSTICE WASHDC
 AMCONSUL MILAN
 AMEMBASSY BAGHDAD

C O N F I D E N T I A L

PLEASE PASS FEDERAL RESERVE BOARD AND DIRFBI

**SUBJECT: BANCA NAZIONALE DEL LAVORO CONCERNS RE
 -- ATLANTA BRANCH**

REF: ROME

1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY: THE CHAIRMAN AND THE DIRECTOR GENERAL OF BANCA NAZIONALE DEL LAVORO (BNL) CALLED ON AMBASSADOR TO EXPRESS THEIR CONCERNS ABOUT DEVELOPMENTS IN THE BNL-ATLANTA AFFAIR. THEY SUGGESTED THAT THE MATTER SHOULD BE RAISED TO A POLITICAL LEVEL, AND INDICATED THEIR DESIRE TO COOPERATE FULLY WITH USG AUTHORITIES WHILE AT THE SAME TIME MAKING IT FAIRLY CLEAR THEY WANT TO ACHIEVE SOME KIND OF DAMAGE CONTROL.

AMBASSADOR SAID HE WOULD PASS ON THEIR CONCERNS BUT COULD NOT OTHERWISE BE HELPFUL WITH OF. COMMENT ON A MATTER UNDER CRIMINAL INVESTIGATION. SEPARATELY, TREASURY MINISTER CARLI HAS BLOCKED AN EFFORT BY OPPOSITION SENATORS TO CONDUCT AN INVESTIGATION INTO THE BNL-ATLANTA AFFAIR. END SUMMARY.

3. THE CHAIRMAN OF BANCA NAZIONALE DEL LAVORO, GIAMPIERO CANTONI, AND THE DIRECTOR GENERAL, PAOLO SAYONA, CALLED ON THE AMBASSADOR ON OCTOBER 19. THE MEETING WAS AT CANTONI'S REQUEST, MADE DURING THE RETURN FLIGHT FROM THE U.S. WITH PRESIDENT COSSIGA. BOTH CANTONI AND SAYONA HAD BEEN IN THE U.S. WITH PRESIDENT COSSIGA'S DELEGATION.

4. CANTONI EXPRESSED CONCERNS ABOUT PROSPECTIVE DEVELOPMENTS IN THE BNL-ATLANTA AFFAIR. HE SAID BNL'S U.S. LAWYERS WERE URGING HIM TO RAISE THE ISSUE TO A "POLITICAL" LEVEL. HE SAID THAT HIS U.S. LAWYERS THOUGHT THAT CHARGES WOULD BE FILED UNDER THE RICO ACT AND THAT BNL AND/OR IRAQI ASSETS COULD BE FROZEN. SAYONA WAS CONCERNED ABOUT LOSING THE CCC GUARANTEE ON ROUGHLY ONE BILLION DOLLARS OF BNL ATLANTA'S THREE BILLION DOLLAR EXPOSURE. THE MEN ALLUDED TO LEGISLATION UNDER CONSIDERATION IN CONGRESS PROVIDING

FOR USG CREDITS TO IRAQ BEING AFFECTED BY THE INVESTIGATION/CHARGES. CANTONI SAID FBI AGENTS REMAINED IN THE ATLANTA BRANCH, OR HAD SEALED THE BOOKS. HE ALSO MAINTAINED THAT THE EX-ATLANTA BRANCH MANAGER DROGOUL WAS AVAILABLE AND WILLING TO TESTIFY TO APPROPRIATE OFFICIALS.

5. CANTONI AND SAVONA BOTH MADE THE POINT THAT THEY WERE WILTING AND ANXIOUS TO COOPERATE WITH USG AUTHORITIES. THEY ALSO SAID THEIR U.S. LAWYERS WOULD BE IN ROME ON OCTOBER 25.

6. THE AMBASSADOR SAID HE WOULD PASS ON THE CONCERNS OF BNL AND THEIR WILLINGNESS TO COOPERATE TO WASHINGTON, BUT THAT HE WAS UNABLE TO COMMENT OR OTHERWISE BE HELPFUL ON A MATTER UNDLN CRIMINAL INVESTIGATION.

7. ON A SEPARATE NOTE, TREASURY MINISTER CARLI RESPONDED NEGATIVELY ON OCTOBER 24 TO A REQUEST BY OPPOSITION SENATORS TO CONDUCT AN INVESTIGATION INTO THE BNL-ATLANTA AFFAIR. CARLI SAID THAT A NUMBER OF INVESTIGATIONS BY ITALIAN AND U.S. OFFICIALS WERE UNDERWAY. HE ALSO NOTED THAT BANK SECRECY LAWS IMPEDED THE BANK OF ITALY FROM PROVIDING INFORMATION TO THE SENATE.

8. COMMENT:

-- THE REMARKS ON THE NEED TO RAISE THIS TO A POLITICAL LEVEL ARE INTERESTING AS THE CASE HAS ALREADY BECOME A POLITICAL ISSUE IN ITALY. THE PRESIDENT HAS BECOME INVOLVED AS WITNESSED BY THE INCLUSION OF CANTONI AND SAVONA IN HIS PARTY IN THE U.S. CANTONI AND SAVONA, WHILE NEW TO BNL, HAVE CLOSE POLITICAL CONNECTIONS, CANTONI TO CRAXI AND THE SOCIALISTS, AND SAVONA TO COSSIGA (A FELLOW SARDINIAN) AND TO CARLI, HIS MENTOR AT THE BANK OF ITALY AND LATER AT CONFININDUSTRIA. THE TREASURY IS THE MAJORITY SHAREHOLDER OF BNL.

-- BNL IS AN UPSTART BANK BY ITALIAN STANDARDS, DATING

ONLY TO 1913 AND OWING ITS GROWTH TO ITS ROLE AS THE KEY BANK FOR THE GOVERNMENT IN THE 1920S AND 30S. IT CONTINUED TO GROW IN THE POST-WAR PERIOD, BUT HAS BEEN HAVING PROBLEMS IN THE PAST FEW YEARS. THE RECENTLY SACKED CHAIRMAN, NERIO NESI, HAD BEEN ENGAGED IN AN EFFORT TO PARE DOWN THE STAFF OF THE BANK AND SEPARATE OUT SOME FUNCTIONS WHILE AT THE SAME TIME INCREASE THE BANK'S CAPITAL. TO ACHIEVE THE LATTER, HE WORKED OUT A DEAL WHEREBY THE STATE-OWNED INSURANCE AGENCY INA AND THE STATE PENSION SYSTEM INPS WOULD TAKE THE PROCEEDS FROM THE SALE OF SHARES IN CREDIOP AND INVEST THEM IN BNL. THE RESULT WILL BE A CAPITAL INCREASE

.....
THAT WILL REDUCE THE TREASURY'S OWNERSHIP FROM 75 PERCENT TO 56 PERCENT. INA 'S ALSO MAKING A

CONFIDENTIAL
 SUBORDINATED LOAN. THE CAPITAL INCREASE WAS APPROVED
 BY THE BNL BOARD IN MID-OCTOBER, AND IS TO BE
 PRESENTED TO THE SHAREHOLDERS (TREASURY, INA, INPS
 PLUS A SCATTERING OF OTHER, MOSTLY PUBLIC,
 INSTITUTIONS) ON DECEMBER 13.

.. RNL'S REPUTATION WITHIN THE ITALIAN BANKING
 COMMUNITY AND EVEN AMONG ITS OWN STAFF HAS BEEN
 SUFFERING FOR SOME TIME. THE BNL-ATLANTA AFFAIR, EVEN
 IF CONTAINED, WILL AGGRAVATE BNL'S PROBLEMS. NOT
 LEAST OF THESE ARE LOANS TO LATIN AMERICAN COUNTRIES.
 RNL IS SAID TO BE ONE OF THE TWO LARGEST LENDERS TO
 MEXICO AND HAS BEEN ACTIVE IN SOUTH AMERICA AS WELL.
 SECCHIA

CONFIDENTIAL

MEMBER OF CONGRESS, 1981-1982

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 EDWARD SANDERS, VERMONT
 BOB 305-1217

January 31, 1992

The Honorable Edward Madigan
 Secretary
 Department of Agriculture
 Washington, D.C. 20205

Dear Mr. Secretary:

I am writing to you concerning Iraq's participation in the Department of Agriculture's Export Credit Guarantee Program and Intermediate Export Credit Guarantee Program, referred to as the GSM-102 and GSM-103 programs, respectively.

Specifically, I am interested in the status of the payment of the guarantees to the Banca Nazionale Del Lavoro (BNL) or its agency operation in Atlanta known as BNL-Atlanta, by the Agriculture Department's Commodity Credit Corporation (CCC).

Please provide the Committee with the following information:

1. A summary of all claims filed under the CCC guarantee programs for Iraq including the total U.S. exposure;
2. The total amount of all payments that have been made to date on claims that were filed under the CCC program for Iraq;
3. The total amount of all claims filed by BNL under the CCC program, including the original principal amount owed to BNL and the amount of accrued interest and the rate used to calculate the interest;
4. The total amount of all payments that have been made on claims under the CCC program that were filed by BNL; and
5. Any and all additional documents the Department of Agriculture has that are relevant to this matter.

Page Two
Letter to Secretary of Agriculture
January 31, 1992

Additionally, it has come to my attention that the Agriculture Department recently solicited opinions from various agencies regarding the payment of these guarantees. Please provide the Committee with all documents, including those generated by other agencies, related to the Department of Agriculture's consideration of BNL claims.

Finally, please provide the Committee with the Agriculture Department's position concerning the payment of these guarantees.

Thank you for your prompt attention to this matter. If you have any questions, please call Ms. Debra Carr at 225-2924.

Sincerely,


Henry B. Gonzales
Chairman

HBG:dc

HENRY B. GONZALEZ, TEXAS, CHAIRMAN

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U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ONE HUNDRED SECOND CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-8060

February 25, 1992

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EDWARD SANDERS, VERMONT

GPO 755-5457

Honorable Charles Bowsher
 Comptroller General
 U. S. General Accounting Office
 441 G Street, NW
 Washington, D.C. 20548

Dear Comptroller General Bowsher:

The Committee on Banking, Finance and Urban Affairs is conducting an investigation into the operations of the Banca Nazionale del Lavoro (BNL). Part of this investigation involves BNL participation in the Export-Import Bank (Eximbank) program for Iraq. The Committee requests your assistance with this investigation.

The Banking Committee has obtained numerous documents during its investigation that demonstrate that Iraq was not creditworthy, yet, was able to obtain Eximbank financing. The Export-Import Bank Act states that all transactions supported by the Bank shall "... in the judgement of the Board of Directors, offer reasonable assurance of repayment..." The Committee is concerned that Eximbank extensions of credit to Iraq were approved in violation of this particular provision of its charter.

Accordingly, the Committee requests that the GAO investigate whether or not Eximbank extensions of credit to Iraq were proper given the above mentioned provision in its charter. Please make sure to examine the decision-making process used by the Eximbank to grant credit to Iraq. In addition, please determine the role the State Department and other "outside factors" played in the decision to grant credit to Iraq.

Thank you for your time and consideration. The Committee looks forward to the results of your investigation.

Sincerely,

Henry B. Gonzalez
 Henry B. Gonzalez
 Chairman

HBG:dk

Special Order - March 16, 1992

Cover-up Mechanism and Lies to Congress

- Introduction to the Rostow Gang
- Function
- Process
- Subpoena power
- Real definition of cooperation
- Commerce Department scandal
- Congressional Request
- Inspector General report
- Scope of investigations limited by Rostow Gang Member
- The NSC role
- Criminal inquiry
- Maginot line strategy
- Food as political weapon and lies to Congress
- Intended use of CCC program
- State Department lies to Congress
- USDA knew CCC program for Iraq was primarily a foreign policy tool
- USDA denies intense pressure
- Lies to Senator Leahy
- Conclusion

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standing women who have tirelessly served others through their work with the council.

I am pleased to honor Cleopatra Hamlin Parson of Mount Vernon, whose musical talent is well known. She moved to Mount Vernon with her family and quickly took an active role within the community. She joined the AME Zion Church and has devoted her talents to the choir, the adult Bible class, and the Sunday school. In addition, she was a charter member of the Mount Vernon chapter of the NAACP and is involved with several seniors centers. Indeed, Cleopatra Hamlin Parson is working to leave no one behind.

Robena Ambrose Cotten, also of Mount Vernon, celebrated her 110th birthday last year. She was recognized by Mount Vernon Hospital for her special contributions. Her many years of teaching and work at the hospital have certainly provided a source of comfort and inspiration to thousands who have turned to the hospital in difficult times. And, yes, Robena Ambrose Cotten has done her part to leave no one behind.

Marcia Marie Brown has always put others before herself. She has worked tirelessly on behalf of our youth. She has targeted at-risk youth through Operation Clean Sweep and the Mosaic program for youthful offenders. Also, Marcia's commitment has been crucial in the development of the Girl Scouts of Westchester. She was one of the founding members and served as vice president of the Girl Scouts of Westchester-Yonkers. Her dedication was recognized with the Thanks Be to Her highest honor, and she continues to work with young girls as a troop leader. We are grateful to her for her consistent belief in our children and her willingness to afford these youth the opportunity to achieve. Marcia Marie Brown has committed herself to leaving no one behind.

Dr. Olivia Hooker wanted to serve her country and refused to give up when prejudice would have denied her the opportunity. She became the first African-American SPAR in the U.S. Coast Guard in World War II and in that capacity she has been an important role model for many African-American women in our community. Not only did she nobly serve her country, but she has earned many academic honors through her work as a psychologist. Again, she has served as an inspiration to others to pursue educational opportunities as a means of strengthening their ability to help others. In so doing, she has worked to ensure that our society does its best at "leaving no one behind."

Mr. Speaker, I salute these women for the strength of their convictions and for their outstanding accomplishments. Thanks to them, fewer in our society are being left behind.

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Wisconsin (Mr. Ostry) is recognized for 60 minutes.

(Mr. OBEY addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Georgia (Mr. GINGRICH) is recognized for 60 minutes.

(Mr. GINGRICH addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Tennessee (Mr. CLEMENT) is recognized for 60 minutes.

(Mr. CLEMENT addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Indiana (Mr. BURTON) is recognized for 60 minutes.

(Mr. BURTON addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from New York (Mr. OWENS) is recognized for 60 minutes.

(Mr. OWENS of New York addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

REGULATION OF INTERNATIONAL MONEY

Mr. GONZALEZ. Mr. Speaker, today I will continue, of course, the discussions because of the pending nature of the need of legislation to get some control, which we really never had, none of our regulatory agencies, over this tremendous amount of international money, so-called international money that amounts to about \$800 billion, even as I speak here, floating around where just a small portion of it can be highly leveraged for such things as anything from armaments procurement indirectly through other banks and such things as drug money laundering.

It is a great necessity that we must continue. We must also report what the Committee on Banking, Finance and Urban Affairs has had to confront within the last 3 years that we have been on this subject matter. There has been an absence of great concern expressed. But nevertheless that should not deter us from the fact that this Nation does not have—and it is the only Nation defined as a modern industrialized Nation that does not have—any kind of screening board or any real regulatory control over the financial and banking activities of other countries in our own.

We did amend the 1978 international banking law somewhat, this last November in the Banking Act which we approved. But it is not enough.

It was compromised, as all these have been. My personal relationship with this is that the 1978 International Banking Act, which was the first one in the history of our Congress to direct legislation, was born out of the 1975 hearings that, after a lot of pushing and shoving, I managed to get in my home district of San Antonio. And it was as a result of the startling revelations that those hearings brought out that we ended up 3 years later with the minimal, or less than minimal, 1978 International Banking Act.

In those 1975 hearings, which incidentally I will tell my colleagues if you are interested, I believe we still have some copies of the printed hearings; we can see since 1975 what now has been the big national headache, not only the banking and other financial institutions scandals as such but the dilemmas confronting our entire industry and the serious, and critical condition in which our country's financial institutions find themselves.

The fact that the perception still is not there does not deny the fact that it is.

So, today, I will report on the secret mechanism used by the Bush White House to frustrate, evade, and stifle congressional investigations of its failed Iraq policy.

I have already brought out ad infinitum for almost 2 years the lamentable use of the guarantees backed by taxpayers, of course, that led to such a shameful and catastrophic policy, to the detriment of our national interest. The White House created this mechanism to cover up embarrassing and potentially illegal activities of persons and agencies responsible for the United States-Iraq relationship.

In April of 1991 the National Security Council's legal adviser called a high-level interagency meeting to discuss congressional investigations of Iraq policy prior to the invasion of Kuwait on August 2, 1990. The meeting was chaired by Nick Rostow, the general counsel to the National Security Council. Mr. Rostow's previous experience includes playing a key role in the White House efforts to cover up the Iran-Contra scandal, which still needs to be exposed.

Also attending was President Bush's general counsel, Boyden Gray. Other persons at the meeting included the top lawyers for the Departments of Justice, Defense, State, Treasury, Commerce, Agriculture, Energy and the CIA. Each of their agencies had received requests for information from the Congress and the lawyers who were responsible for overseeing the collection and the submission of the information to the Congress. I will refer to this high-level legal team as the "Rostow gang."

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Ostensibly, the function of the group was to review documents and information applicable to congressional requests for Iraq-related information and to establish a coordinated approach for the dissemination of that information.

A memo obtained by the committee explains the overt function of the National Security Council process as follows, and I quote:

The NSC is providing coordination for the Administration's response to congressional document requests for Iraq-related materials. The process is intended to be a cooperative one.

While on the surface it appears the Rostow gang was created to assure cooperation with congressional investigations in relation, it gave the White House a direct hand in regulating the flow of information to the Congress, thus limiting oversight of Iraq policy.

The Rostow gang established a process whereby a congressional investigation had to hurdle a series of increasingly difficult barriers in order to obtain information from an executive branch agency.

The first step required an agency's lawyers to review and inventory all congressional requests for information, in order to determine if documents could be denied on the basis of executive privileges.

The Committee on Banking was denied certain important documents on this basis, and these document requests were on the basis of over 100 subpoenas for documents that our Committee on Banking had issued and still has outstanding.

The next hurdle involved denying documents to committees and, instead, offering briefings for Members and their staffs. In that way, an agency was able to put its own spin on its actions, without congressional staff or Members being able to question the veracity of the agency's statements.

If the congressional committee that jumped the first two hurdles still insisted on receiving documents, the next hurdle was actual access to the documents.

□ 1320

Under this scheme, before an agency could provide access to its documents, it was supposed to get a clearance from the Rostow gang. The April 8 memo states, and I quote:

When access to documents may be recommended, such recommendation should be circulated to this group for a clearance.

This delay mechanism also gave the National Security Council the power to influence an agency's decision to provide access to documents.

The next hurdle in the chain discouraged committees from obtaining physical possession of Iraq-related documents, thus making it impractical to conduct an investigation. The April memo states, and I quote again:

A recommendation to provide access should be restricted to members only, subject to these conditions. No document may be retained. Notes may be taken, but should

be marked for classification by the department or agency in question.

As this quote indicates, the NSC even wanted to make it difficult for Members of Congress to look at Iraq-related documents. Agency lawyers used this hurdle, limit access to documents, by insisting that investigators not retain documents that they were permitted to review on the agency's premises.

The remedy to the Rostow bank process is, of course, subpoena power, but even faced with subpoenas, the administration has refused to turn over documents to the Congress; that is, to the committee and, thereby, the Congress. We follow the rules, and the rules mandate that, before a committee can issue subpoenas, it has to have the vote of the majority, and we not only had the majority, we had a total consensus of the membership of the Committee on Banking and Urban Affairs in issuing those documents which I have referred to before. Committees that did not seek the authority to use subpoena power to conduct investigations that were directed were much less of a threat to the Rostow gang. Without subpoena power a congressional committee that jumped all the hurdles, elected to limit their access to documents, was often denied the documents it requested. Committees that voted to authorize the use of subpoenas found documents more readily available.

However in the case of the Committee on Banking, Finance and Urban Affairs, even though it had served a subpoena on one agency, important related materials are still being withheld; that is, related to the Iraq question. In addition, the Committee on Banking, Finance and Urban Affairs found that several agencies conveniently could not locate documents the committee had requested and had spelled out a full description in our subpoena.

The following quote from a Commerce Department letter sheds light on how the administration planned to cooperate with Congress. In February 1991, a letter to the top lawyer at the Commerce Department, the former Under Secretary for Export Administration, stated, and I quote, "in-sum the printout provided Mr. BARNARD"; Mr. BARNARD happens to be chairman, the gentleman from Georgia (Mr. BARNARD), of a congressional committee of the Committee on Government Operations. "Is a summary reference document. The printout is also consistent with fifth floor." Well, that is Secretary Moshbacher's office. That is the fifth floor is the Secretary's office floor. "Guidance and requests from both State Department and the National Security Council is that no additional information be provided that does not directly address the committee's request."

Translating this memo, "the fifth floor," "the National Security Council" and "State Department guidance"

referred to in the letter means that, if a committee does not know that a document exists, the agency will not reveal it. The Rostow gang was established to delay congressional investigation and to permit the White House to regulate the flow of Iraq related information to Congress. In the case of the Commerce Department, the White House went beyond regulating the flow of information to Congress. The committee has gathered evidence showing the National Security involvement in a scheme to mislead the Congress about the licensing of military useful goods destined for Iraq. That is before the war. The Commerce Department has been wrongfully subjected to severe criticism for its role in the transfer of military useful technology to Iraq. The true responsibility for the transfer of United States technology to the Iraq war machine lies with the White House and the State Department because they set technology transfer policy. The Commerce Department's role is merely to carry out the policies established by the White House and the State Department. As with the CCC—the Commodity Credit Corporation—and the Eximbank—the Export-Import Bank—programs, the National Security Council and the State Department viewed the export licensing process as a valuable tool of diplomacy. They need U.S. high technology transfer as an inducement to gain favor with Saddam Hussein.

That explains why the NSC and members of the Rostow gang became directly involved in a scheme to mislead the Congress and the American public thereby about the military nature of United States technology transfers to Iraq.

Beginning in September 1990, the House Subcommittee on Commerce, Consumer and Monetary Affairs, chaired by my colleague, the gentleman from Georgia (Mr. BARNARD), requested Iraq relate export licensing materials from the Commerce Department. The Commerce Department eventually provided export licensing information to the subcommittee, but press reports began to surface indicating that certain export information had been deleted prior to being submitted to the Congress.

In February 1991, the Commerce Department's general counsel, who happens to be a member of the Rostow gang, asked the former undersecretary of the Bureau of Export Administration, Dennis Kloke, to investigate press allegations that export licenses were deleted from Commerce Department files. In late February Mr. Kloke reported that in fact changes had been made to the export licensing information. As a result of Mr. Kloke's finding, the general counsel wrote the Commerce Department inspector general asking him to investigate the matter further.

On June 4, 1991, the Commerce Department inspector general issued re-

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ports based on its investigations. The report concludes, and I quote, "Changes were made to selected data on 66 approved export licenses to Iraq. Bureau personnel also changed permanent records, compromising the integrity of the Iraqi license records. Neither the changes to the data provided to the chairman," that is, the gentleman from Georgia (Mr. BARNES), "nor the changes to the system data base were adequately supported."

May I also add that the gentleman from Georgia (Mr. BARNES) is not only the chairman of a subcommittee of the Committee on Government Operations. He is also a very illustrious member of the Committee on Banking, Finance and Urban Affairs.

The report goes on to state that it was bureau personnel that changed the export licensing records. The Kioske and Inspector general investigations of the changes to the export licensing information were both seriously flawed. Both reports are silent on the issue of who ordered the changes to the exporting licenses information that was submitted to the Congress. Both reports are silent on that critical, important issue because the Commerce Department's general counsel deliberately avoided investigating the question of who was responsible for ordering the changes to the licensing data.

□ 1246

Could the changes have been ordered by the National Security staff? Well, despite the availability of evidence pointing in that direction, neither investigation was permitted to pursue that possibility. The Banking Committee has been informed by administration officials that the NSC legal staff went beyond reviewing the Commerce Department documents that were to be forwarded to Mr. Barnes's subcommittee, and NSC staff lawyers actually took physical possession of various Commerce Department documents. On top of that, the Commerce Department lawyers did not prepare a control list for the documents so it could keep track of which licensing records they had supplied to the NSC.

The committee has also been informed that prior to the submission of the export licensing records to the Congress, the NSC staff had numerous contacts with the General Counsel of the Commerce Department as well as the general counsel of the EXA, the export licensing bureau.

Given that the NSC was instrumental in setting the export policy toward Iraq, it had a strong political motive to mislead the Congress as to the military nature of goods sent to Iraq. It did not want the public to know that the White House had provided aid to the Iraqi war machine.

Placed in that perspective, the fact that the NSC actually took physical control of Commerce Department documents and had numerous contacts

with the Commerce Department lawyers, serious questions should be raised about whether or not the NSC altered the Commerce Department records or, more likely, effectively ordered the changes to the records. After all, it is highly unlikely that numerous Commerce Department bureaucrats would risk breaking the law and losing their jobs over a policy that they were not responsible for setting.

Another important question relates to the fact that the Commerce Department lawyer that limited the scope of the investigations also is a member of the Rostow gang. It is certainly plausible to think that the NSC or others ordered him or pressured him into limiting the scope of the Commerce Department's investigations so that attention would not focus on the NSC staff.

In addition, the circumstances surrounding Mr. Kioske's departure from the Commerce Department also raises suspicions. It was reported in the press that Mr. Kioske was forced out of his post at the Commerce Department because of derogatory comments he had made about the administration's export policy toward Iraq. Could the National Security Council have ordered him or pressured him into authorizing the changes to the export licensing information? That is a good question, and it should be asked. The question and its asking should be sustained.

On July 16, 1991, Mr. BARNES wrote to then Attorney General Thornburgh asking him to investigate the possibility of criminal culpability relating to the Commerce Department's provision of false information to the Congress. To date, the Justice Department's probe has not returned any indictments. It is interesting to note that one of the Justice Department's top lawyers is also a member of the Rostow gang.

The Rostow gang process operates as a sort of Maginet Line. If congressional investigations pass the first barrier, they soon run up against the next. Under this strategy, the process of obtaining documents to investigate United States-Iraq policy is a painstaking, tedious, drawn-out process that ensures many months will pass before a congressional committee obtains documents needed to conduct Iraq-related investigations.

The mere fact that the White House established and directs a group to regulate congressional investigations of Iraq policy raises questions about the motives of the White House.

Some important questions that need to be asked are: What do congressional investigations of the prohibition Iraq policy have to do with designing and carrying out the President's national security strategies? With the world changing by the minute and our national security strategies becoming outdated daily, why would the NSC devote more staff time to regulating congressional investigations, or at

least attempting to and so far succeeding?

Since when did it become the responsibility of the National Security Council staff to involve itself in congressional investigations?

Well, someone like me would want to know. We asked that question, and we know what has been happening for many years. It goes back many years, and I had knowledge of a lot of things that at the time we found hard to believe.

The only other example that comes to mind is the Iran-Contra investigation.

Are the lawyers of the various agencies so incompetent that they need guidance on answering congressional requests for information? On the contrary, executive branch agencies process hundreds of congressional requests for information each year. The lawyers at these agencies are most competent, highly motivated people who do not need, nor usually receive, guidance from the White House in complying with these requests.

Given Mr. Rostow's close proximity to the coverup of the Iran-Contra scandal and the unique functions of the Rostow gang, it is not outside the realm of possibility that the White House is hiding something about its Iraq policy.

It need be that coverup were sort of ad hoc events, a made scramble to provide damage control for the moment. The Rostow gang advances the notion that coverup mechanisms have become an integral cog in the machinery of this administration.

Officials of this administration have publicly stated that they would not use food as a political weapon, for example, and in testimony before the Congress these same officials often stated that the United States does not single out farm exports as a tool of foreign policy. In the case of Iraq, this administration violated both of these policies, and in the process they repeatedly misled the Congress and thereby the American people.

The U.S. Department of Agriculture (USDA) offers a variety of programs designed to assist U.S. farmers to sell their products overseas. The biggest of these programs is the Commodity Credit Corporation's Export Credit Program. This was also the main United States program utilized by Iraq.

The goal of the CCC Program is to assist U.S. farmers to sell their agricultural products abroad by granting cash-strapped nations credit to purchase U.S. agricultural products. The CCC is required by regulation to allocate its credit on the basis of a foreign country's needs, its market potential, and, above all, the likelihood that these guarantees or loans will be repaid.

In the case of Iraq, these purely commercial conditions were relegated to secondary status. Achieving foreign

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policy objectives became and remained the prime goal of the CCC programs for Iraq.

I have shown in previous floor statements that from the beginning of the United States-Iraq relationship in 1963 until the Iraqi invasion of Kuwait, the CCC Program was the cornerstone of United States-Iraq relations. The CCC Program financed the sale of \$365 million in U.S. agricultural products in 1963. That was the year that President Reagan took Iraq off the list of terrorist nations and opened the sluice gates for all of this interchange, and so forth, and by 1988 it had reached over \$1 billion annually, all guaranteed by taxpayers, and the taxpayers have been left with a bag of over \$2.5 billion just on these Iraq letters of credit financed through the CCC Guarantee Program.

□ 1256

The CCC Program was by far the largest U.S. Government program became the two nations. With the advent of the BNL scandal, that is, the Italian bank, the Banca Nazionale del Lavoro, which, incidentally, all these banks are government-owned, and all of these transactions are by the central bank of Iraq, for whatever that means. Of course, our regulators, the Federal Reserve Board, which is supposed to have prime jurisdiction says, "Well, of course, our reciprocity means we can't get behind these accounts of a central bank of another country."

But what about these other banks that are also owned? They may not be the central bank, but they are owned by that government. And how can the policies of our Government not be frustrated, on one hand expressed through the State Department and what not, and, on the other hand, canceled out by the banking arrangements?

As I have said, at the bottom of everything is financing. Banking. Money. As they say in Spanish, don denaro poderoso caballero, or, Mr. Money Bags, a mighty powerful individual indeed.

The BNL investigation uncovered the fact that top Iraqi Government officials were involved in this scheme.

Well, of course. We do not understand. It is not like our setup, any more than the setup of the central bank in these other nations is like ours, or the screening and the oversight and the regulating of their banking functions, both domestic as well as foreign, are comparable to our country.

Even the Europeans, German, French, we are not talking about the same thing. That does not seem to have dawned on our leaders in our country even now.

It also brought to light the abuses of the CCC Program toward Iraq. On top of the BNL scandal, Iraq's already precarious financial position took a turn for the worse in 1988, as it began to default on its loans to other creditor nations.

As a result of these factors, the Treasury Department and the Office of Management and Budget began to have serious doubts about extending CCC credits to Iraq. Pursuing friendships with Saddam Hussein, above all else, the State Department was not daunted by Iraq's poor financial condition or the pessimistic outlook of its sister agencies.

Based on purely foreign policy grounds, the State Department pressed the USDA, the Department of Agriculture, to give Iraq \$1 billion in CCC credits for fiscal year 1990.

The invasion of Kuwait happened on August 2, 1990. This was despite the USDA's contention that the CCC Program should be held under \$800 million.

Now, what I am not mentioning, but I have in the past, and maybe I should not regret that, but I think I ought to remind my members that these credits through the BNL were leveraged and led to the purchase of high technology from American corporations, such as the giant gun that was in the process of being developed, whose originator was assassinated in Belgium at the height of all this. Also chemical weapons and ingredients for chemical weapons.

They were all leveraged through these licensing credits through not only BNL, but BNL acts as a bank. It also acts as a syndicator.

What do we mean by syndicator? That is a fancy word. It means they do not do it alone. They bring in other banks. And they brought a host of not only American, but foreign banks, into these transactions.

Based on purely foreign policy grounds, the State Department pressed the United States Department of Agriculture to give that credit to Iraq. Iraq was aware that a CCC Program was in jeopardy. In a meeting in October 1989 between Secretary of State Baker and Iraqi Foreign Minister Aziz, on October 4, 1989, Mr. Aziz was paraphrased as saying:

Food was a particularly explosive area because the government must feed its people. He [Aziz] said the Iraqi delegation was very concerned that failure to agree to the full (\$1 billion) program now would force Iraq to search immediately for alternative suppliers and such suppliers were not available. U.S. actions will sour relations, he contended.

After an intense lobbying effort, in November 1989 the State Department finally won approval for a \$1 billion fiscal year 1990 CCC Program for Iraq. The other agencies did prevail in getting the program split into two \$500 million installments. Under that approach the second \$500 million could be withheld if additional problems were uncovered that warranted suspension of the program. Additional problems did arise.

As 1990 unfolded Iraq became increasingly belligerent toward the United States. As that belligerence grew, the State Department and NSC

looked for leverage that could be used to modify Iraq's actions. They decided that the leverage would be the release of the second \$500 million installment of CCC credit.

The United States Ambassador to Iraq, April Glaspie, counseled against using food as a device to modify the actions of Iraq. In a May 18, 1990 cable to the State Department and the NSC, Ambassador Glaspie stated:

My own thinking is that unless Agriculture has uncovered a legal hornets nest, we will want to proceed with the second tranche of credits. It remains unclear why we would want to use food as a weapon.

Later that month the NSC called a meeting to discuss potential strategies for dealing with Iraq. In preparation for that meeting the State Department formulated a list of policy options that could potentially be used as a tool to modify Iraq's actions. Regarding the CCC Program the paper stated:

CCC Program: This is the largest program we currently have with Iraq. All the sanctions legislation on the BNL, aside from Treasury-Easton, exempts CCC. FRO: Since Iraq's record of repayment on CCC-guaranteed loans is good and USDA's review will probably give Iraq a fairly clean bill of health, suspension of CCC at this point would be a strong political statement. COB: It would update our policy against using food as a political weapon and hit some U.S. agricultural exporters hard. It might also lead Iraq to default on CCC-guaranteed loans. Other countries would not then consider Iraq.

Now, have we learned anything? Not at all. Even as I am speaking now, how many of my colleagues know that the United States, this administration, has entered into a 10-year treaty with Kuwait? Ten years for defense. How many know the tremendous amount of money that the Export-Import Bank has released for Kuwait? How many members realize that at this time our home builders, those in areas in which masonry is not the big ingredient, but lumber, are finding that the cost of lumber is going up because it is being shipped to Kuwait? But under what conditions? Export-Import Bank guarantees.

So it looks like we have learned nothing, or at least our executive branch has not, or does not want to.

At the conclusion of the meeting it was decided that a strong message would be sent to Iraq—the second \$500 million installment was not released. This too little, too late effort to get tough on Saddam Hussein was a violation of the Bush administration's own policy against using food as a political weapon.

The State Department, arguing against suspension, feared that suspending the CCC Program would cause Iraq to default on all its debts to the United States. The State Department was right on that account but that issue became moot when less than 3 months after the meeting Iraq

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invaded Kuwait and defaulted on its \$3 billion in CCC debts.

The committee has many more documents showing that the administration used the CCC Program for Iraq as a foreign policy tool in an attempt to improve relations between our two nations. What is troubling is that the Bush administration repeatedly misled the Congress and the American public about how it was using the CCC Program. It did this to circumvent prudent controls that would have limited the amount of credit that would have been made available to Iraq. That deception has left the United States taxpayer holding a much inflated tab for Iraq's default.

□ 1300

Former Under Secretary of State for Near East and South Asia (NESAI), John Kelly, was one of the chief lieutenants assigned to carrying out the United States policy toward Iraq. The committee has numerous documents written by Mr. Kelly showing that the State Department knowingly used the CCC Program as a foreign policy tool in order to achieve President Bush's desire to have close and friendly relations with Iraq.

To illustrate that point, when the BNL scandal threatened to cut off the CCC Program for Iraq, Mr. Kelly wrote in a February 1990 memo:

Saddam Hussein's recent attacks on the U.S. underline the fragility of our relationship with Iraq. CCC is a key component of the relationship and failure to approve the second (\$500 million) tranche will feed Saddam's paranoia and accelerate his swing against us. We need to move quickly to repair the damage to the U.S.-Iraq relationship by getting this critical program back on track.

Part of Mr. Kelly's responsibility was to testify before Congress. While Mr. Kelly recognized and used the CCC's agricultural export promotion program as a tool of diplomacy, on several occasions he deliberately misled the Congress and the American public about the use of the program.

During hearings on Iraq on April 26, 1990, before the House Foreign Affairs Committee and on June 15, 1990, before the Senate Foreign Relations Committee Mr. Kelly stated:

Regarding our agricultural programs, U.S. policy in both this administration and the previous one has been not to single out farm exports as a tool of foreign policy.

Not surprisingly, Mr. Kelly's memos never mentioned protecting the integrity of the CCC Program or protecting the American taxpayer from Iraqi default. Mr. Kelly was not the only Bush administration official that misled the Congress and American public about the United States policy toward Iraq.

WE KNEW CCC PROGRAM FOR IRAQ WAS

PRIMARILY A FOREIGN POLICY TOOL.

I will now show how several USDA officials, including the former Secretary, repeatedly misled the Congress and the public about the foreign policy nature of the CCC Program for Iraq. USDA repeatedly denied before

Congress that the CCC Program for Iraq was subject to foreign policy pressures and it also indicated that the CCC Program for Iraq was not mainly foreign policy based. Concrete evidence gathered by the committee contradicts both those assertions.

The USDA was, in fact, well aware that the CCC Program for Iraq was foreign policy based. To illustrate that point consider a comment from a 1989 Agriculture Department memo related to the proposed \$1 billion fiscal year 1990 CCC Program for Iraq. The memo states:

... this program cannot be seen by the Iraqi side outside the context of the overall U.S.-Iraq political relationship. The U.S. relationship with the most powerful of Arab states, both militarily and in terms of its oil reserves, has been carefully nurtured during the years of the Iran-Iraq war and more particularly, during the 10 months since the cease-fire. The CCC program, as the Ambassador's personal cables have emphasized, played a key role in this approach. The Ambassador's cables have stressed the threats to the overall political relationship that a cutoff in the (CCC) program would pose. More widely, the cutoff runs the risk of interpretation by the Arab countries collectively as a further signal of their second class treatment in U.S. foreign policy.

Does that sound like a statement from an agency that does not understand the foreign policy nature of the CCC Program for Iraq?

Despite knowing that the CCC Program for Iraq was being inflated to achieve foreign policy objectives, in testimony before the House Banking Committee in October 1990, the CCC's Paul Dickerson stated:

It (the CCC program for Iraq) was a market driven agriculture-related program without reference to other issues.

The USDA attempted more than once to keep the true nature of the CCC Program from public scrutiny. In an April 26, 1990, Treasury Department memo describing a meeting between USDA, State, and Treasury, the USDA is paraphrased as stating:

The USDA official said USDA is concerned that foreign policy considerations may cause curtailment of the (CCC) program, and is uncomfortable emphasizing foreign policy as the public rationale for making available the first tranche of the fiscal year 1990 Iraq CCC guarantee.

The USDA was fully aware of the commercial rationale for the CCC Program for Iraq and the conflicting reality caused quite a bit of worry among the program's managers. In preparation for the May 1990 NSC meeting that I mentioned earlier, the USDA sent a wishful background memo to Mr. Brent Scowcroft which stated:

... It cannot be overemphasized that any constraint on CCC credit guarantees must not be based on a foreign policy rationale.

As we know, in order to send a strong political signal to Saddam Hussein, the program was suspended at that meeting.

WAS THERE INTENSE PRESSURE

In my floor statement of March 2, I showed that the pressure on the

USDA to approve the CCC Program for Iraq was intense. It was so intense that in late 1989, both Secretary of State James Baker and Deputy Secretary of State, Lawrence Eagleburger put the full weight of their offices behind winning approval for the CCC Program for Iraq. They lobbied the USDA and other agencies and neither minced words—they wanted the CCC Program for Iraq approved for foreign policy purposes.

During the period surrounding the 1989 debate on whether or not the CCC Program for Iraq should be approved, the USDA still strongly supported the program—albeit at a lower level than the State Department. Since Iraq had become a large market for United States agricultural products, the USDA feared that a sudden termination of the program would place too much of a burden on United States farmers.

As 1990 unfolded the USDA began to seriously doubt the wisdom of releasing the second \$500 million installment of CCC credits to Iraq. The State Department detected the USDA's growing apprehension and it exerted considerable pressure on the USDA to win approval for the release of the second \$500 million installment for Iraq.

The State Department's position is illustrated in a January 4, 1990, informational memo which states:

... USDA may still be reluctant to proceed with the second tranche. CCC has been criticized heavily for mismanagement in recent months and may not want to risk pushing the second tranche at this time. We want to move ahead with the second tranche this month, as the Iraqis have requested. If it appears USDA is holding back, we may want to force the issue by bringing it before the NAC Deputies (Committee).

The State Department's position is further illustrated in a February 1990 memo to the Treasury Department calling for a NAC meeting to discuss the release of the second tranche. In the memo Mr. Kelly writes:

USDA's present delay in releasing the second tranche damages the interests of U.S. producers that sell to Iraq as well as our political relationship with an important country (Iraq). I therefore request that you (Treasury Department) convene a meeting of the NAC deputies as soon as possible so that I can make State's case for immediate action.

A third example showing that the USDA was under intense pressure to approve the CCC Program is contained in a May 23, 1990, Treasury Department memo summarizing a meeting held between the USDA, Treasury, and State Department. The memo states:

(The) meeting has been initiated by the NSC staff because they want to prevent the CCC program from being canceled as is would exacerbate the already strained foreign policy relations with Iraq. Agriculture had planned to put out a press release on May 23, 1990 that said the program was being suspended until the investigation into improprieties in the program were complet-

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ed. The NBC prevailed on Agriculture to say only that their investigation showed the importations may have encouraged and remained silent on the occasion. In fact there is a suspension in effect. ***

□ 1310

Even though the USDA was under intense pressure from the State Department, on several occasions USDA officials deliberately misled Senator PATRICK LEAHY, the chairman of the Senate Agriculture Committee about those pressures.

In February 1990 Senator LEAHY took opportunity of hearings on the 1990 farm bill to question the USDA's Richard Crowder about allegations that the USDA was being pressured to approve the CCC Program based on foreign policy grounds. During the hearing Senator LEAHY stated:

I assume you are getting some pressure, either from the State Department or elsewhere, within the administration to loan money to Iraq. Or is it just an internal decision made simply by the Department of Agriculture?

Mr. Crowder responded:

We (USDA) are not getting undue pressure from anyone on either side, either for Iraq or anyone else at this time. If we did not agree with it we would not recommend it. If we thought it was appropriate, we would recommend it.

The Secretary of Agriculture even got into the act. On February 12, 1990, Senator LEAHY wrote to then Secretary of Agriculture, Clayton Youtler, asking about the ENL scandal and the fiscal year 1990 \$1 billion CCC Program for Iraq. In the letter, Senator LEAHY wrote:

I am also disturbed by rumors that foreign policy pressures have encouraged the Department to give Iraq special treatment in this case.

On February 28, 1990, Secretary Youtler answered Senator LEAHY and in letter he stated:

You mentioned that there were "rumors" that foreign policy pressures have encouraged the Department to give Iraq special treatment in this case. To the contrary, the extension of CCC guarantees in connection with sales to Iraq have recently been subject to special scrutiny because of the ENL investigation.

It is interesting to note that an earlier draft of Secretary Youtler's reply was much more specific and misleading. The draft letter contained a flat denial, as opposed to the descriptive version that was actually sent. The draft letter stated:

You mentioned that there were "rumors" that foreign policy pressures have encouraged the Department to give Iraq special treatment in this case. I can assure you that there is no basis to this rumor.

The State Department directly intervened at least twice in USDA's operation of the CCC Program. First it raised the amount of the fiscal year 1990 CCC Program for Iraq from the USDA recommended amount of \$800 million to \$1 billion. Second, the State Department would not permit the USDA to suspend the CCC Program

for Iraq in April 1990. The State Department sought to turn the program on and off for policy reasons, and nothing else.

Despite these and other pressures the USDA continued to mislead the Congress and the American public by insisting that the State Department was not applying undue pressure on the USDA. Given that high-level officials of the USDA were willing to mislead the Congress and public about the use of the CCC Program, one must be concerned about the integrity of the entire CCC Program.

How much of it is involved now in our lumber producers, lumber going to Kuwait, making our potential home buyers, who can afford one, pay a much higher price even now with so-called deflation?

One must be concerned. The CCC Program for Iraq is a prime example of how the State Department and the NSC use United States credit programs as a back-door means of financing your foreign policy objectives, often at the expense of the United States taxpayer, if not almost 100 percent. Because the administration strongly denies that these programs are used in this manner there is a decided lack of accountability over such use of the programs.

In 1988 and 1990 the State Department used the CCC Program for Iraq as a political weapon in a failed attempt to modify the actions of Saddam Hussein. That dubious effort cost the U.S. taxpayer, in one instance, as I said before, not necessarily CCC, \$500 million, \$300 million. While less than that amount we could target the needed improvements we have in the sorely reduced housing stock for the very poor, known as public housing.

The State Department clearly does not hesitate to misuse commercial export programs nor to lie about its actions.

Mr. Speaker, I include here the document and the records on the basis of which I have issued this report to my colleagues.

NATIONAL SECURITY COUNCIL,
Washington, DC, April 3, 1991.
Memorandum for: Jeanne E. Archibald,
Treasury; C. Boyden Gray, White House; Fred Green; Michael Lettice, Justice; Terrance O'Donnell, DOE; Alan Raul, USDA; Elizabeth Rindkopf; Edwin Williamson, State; Wendell Willkie, Commerce.

Subject: Meeting on Congressional Requests for Information and Documents.

First of all, I apologize to Treasury and Agriculture for not inviting them to the meeting today on responding to congressional requests for information and documents pertaining to U.S.-Iraq policy prior to August 2, 1990. At the meeting, it became apparent that these departments should have been present. I shall schedule a meeting for tomorrow on requests pertaining to the ENL/CCC matters to which Agriculture and Treasury will be invited.

After reviewing the requests that we received for information, today's meeting ended that:

Department General Counsel should review and inventory all requests to determine which, if any, raise issues of executive privilege (diffusive process, foreign relations, national security, etc.).

Alternatives to providing documents should be explored (e.g., briefing).

When access to documents may be recommended, such recommendation should be circulated to this group for clearance.

A recommendation to provide access should be restricted to members only subject to these conditions: no document may be retained; notes may be taken but should be marked for classification by the department or agency in question. (FYI: our legislative affairs office recommends against insisting that members come to departments to read documents.)

In any event, departments and agencies should seek guidance from this group in cases of doubt.

I hope you agree that this summary fairly represents where we came out.

NICHOLAS ROSSER,
Special Assistant to the
President and Legal Advisor.

U.S. Department of Agriculture,
Office of the General Counsel,
Washington, DC, April 17, 1991.

MEMORANDUM FOR THE SECRETARY

From: Alan Charles Raul, General Counsel.
Subject: Iraq-Related Document Requests
Response to Congressional Requests.

NOTE:

On April 16, Gene Bailey and I attended a meeting called by the NSC to discuss the Administration's response to Congressional requests for Iraq-related documents. USDA has received document requests from Congressman Ocasio, Chairman of the House Banking Committee, and from Congressman Raul of the House Agriculture Committee.

Congressman Raul wrote to you on April 12, 1991 (copy attached), expressing his request for documents in rather forceful terms. A proposed reply for your signature is attached.

DISCUSSION

1. Background. The NSC's legal advisor and director of legislative affairs called an inter-agency meeting to discuss the Administration's response to numerous requests for Iraq-related documents. Boyden Gray attended the meeting, as did the Assistant Attorney General for the Office of Legal Counsel and the legal and congressional officers for State, Treasury, Commerce, and Energy Departments as well as the CIA, NSA and Joint Chiefs of Staff. Each agency reported on document requests it had received. The House Banking Committee, House Agriculture Committee, House Ways and Means Committee, General Accounting Office, perhaps the Foreign Relations Committee, as well as other committees, are requesting Iraq-related materials.

The Treasury Department reported that it had permitted EIL staff to review the National Advisory Council minutes regarding inter-agency consideration of the Iraq OSHA request. The NAC minutes were reviewed in the office of the Treasury Department; the Committee staff was not provided with any copies of the NAC minutes. Congressional staff members were not even permitted to take notes on any classified minutes.

2. Diffusive Materials. The Justice Department emphasized the need to determine which documents contained information that could be central to the Presidency, such as national security, diplomatic and other deliberative matters. The Assistant Attorney General also suggested that ad-

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nority as well as majority staff members be included in whatever document review is allowed. He further suggested that, if appropriate, agencies should consider entering into confidentiality agreements with the Congressional committees or editing out the deliberative or advisory portions of potentially privileged documents.

3. Coordination and Review. The meeting concluded with NSC suggesting that the coordinating process would continue to be available so that agencies do not pursue inconsistent approaches. It was also noted that the objective is to cooperate with Congress while also ensuring that appropriate protections are accorded to deliberative materials. Also, the inter-agency nature of the subject should be recognized—therefore, agencies should not act unilaterally. In particular, an agency should not disclose documents in its files that were originated by another agency without advance consultation. Finally, it was agreed that materials should be reviewed before being provided to the Congressional committees and that each agency should maintain a list or copies of the documents provided.

4. Suggested Guidelines. I proposed the following procedures and guidelines in response to these document requests within OSDA:

1. Requests should be received in writing.
2. Party receiving request should forward copies to: a. Blumenthal/O'Connor (Case); b. Raul/Bruch (OGC); c. Crowder/Ackert/Hovavale (LACF/PAS); d. Bailey (OCRI); e. Sneed (OIG).
3. OGC will review each request and provide advice.
4. Potentially responsive files and/or documents will be reviewed or evaluated by OGC.
5. To the extent requested and appropriate (within OGC advice), access to files may be provided.
6. Relevant agency will make copies of potentially responsive materials and provide to OGC.
7. Agency or OGC (to be decided after consultation) will provide copies to Committee with appropriate cover letter drafted by OGC.

SUMMARY

The NSC is providing coordination for the Administration's responses to Congressional document requests for Iraq-related materials. The process is intended to be a cooperative one; it also recognizes the Executive Branch's appropriate confidentiality interests. Many Congressional committees are investigating the subject, including the House Banking Committee and House Agriculture Committee. These two committees have submitted document requests to OSDA.

In connection with the request from the House Agriculture Committee, a proposed response to Congressman Ross's April 13 letter to me is attached.

DEPARTMENT OF COMMERCE, THE
UNDER SECRETARY FOR EXPORT
ADMINISTRATION
Washington, DC, February 24, 1992.
Memorandum for: Wendell Wilkie, General
Counsel.
From: Dennis Kloche.
Subject: Iraq Printout.

As your request, I have asked the Office of Export Licensing staff to prepare a report on the preparation of the printout for Chairman Bernard. A copy of this report titled "Iraq Data Base Assessment" is attached, along with C's & A's and a copy of summary of any corrections made to the printout. I believe this fully responds to your memorandum to me of February 8. The first printout provided to the Commit-

tee is a summary reference document which is responsive to the Chairman's request concerning the history of exports to Iraq. The document also reflects Fifth Floor and White House guidance not to provide information that was not directly responsive to the Chairman's request. Please note that to date, four printouts have been provided to the Committee—the first two by ECCN's, and the other two by end-users.

I have also been informed that the list of four suspended cases to Iraq was not supplied to the Committee, although Mr. Jacobs, Bernard's Chief of Staff, was told about it during one of the briefing sessions. I have given instructions that the list be given to the Committee.

I would be happy to brief you on the report in greater detail.

IRAQ DATA BASE ASSESSMENT

Information on export license applications to Iraq is contained in the Export Control Automated Support System (ECASS) data base. That data base contains more than 1.5 million records dating back to 1980. There are more than 400 different computer programs that can be used to access the data base to obtain different information.

Records dating back to 1980 are very sketchy and cover little more than the date of receipt and final action. In the mid-1980s, the data base improved greatly but still contained many inaccuracies as data was input by key punch operators. In 1988, the data base accuracy increased once again as application information was entered either electronically from the exporter or by scanning applications with Optical Character Readers.

The actual data base can only be modified by the Director of the Office of Information Resources Management (OIRM) or by his Deputy. No one in the Licensing office nor any senior management official has the capability to access the computer and modify any existing data.

Congressman Bernard requested on September 28, 1990, a list of all export licenses to Iraq from 1985 to August 2, 1990. He asked for:

- Disposition of each license application.
- Requester of each license application.
- Product to be exported.
- Approximate value of sale.
- End-Use.
- End-User.
- Export Commodity Control Number (ECCN).

The Congressman stated in his request that he understood that "the requested information is on a computer data base and is readily accessible."

Accordingly, we decided to respond to the Congressman's request by preparing a printout generated by the ECASS data base. For the disposition of the export license application, we asked the computer to list whether the case was approved, rejected, returned without action, or embargoed. For the requester, we provided the name of the applicant—the exporter.

For the product to be exported, we used the description associated with the Export Control Commodity Number (ECCN) contained in the data base. We thought this would be more helpful to the Congressman rather than printing out the lengthy listing of technical specification and model numbers. Thus, for example, a product description read, "Microelectronic Computer and Equipment" rather than the specific model and technical details of the computer in the application.

For the value, we used the value submitted with the application. For the end-user, we asked for the ultimate consignee. For the

end-use, we asked the computer to printout the end-use as listed in the data base. For the ECCN, we provided the ECCN.

In reviewing the printouts before their submission to the Congressman, we compared each entry for accuracy with information that was available on microfiche records. In 68 instances out of the 1,138 licenses processed for Iraq during this period, we found that the data base did not correctly reflect the disposition of the application. No surprisingly, most of these instances were for applications before 1988. Based on concrete and specific documentation available on microfiche, we corrected the data base by including the additional information. These corrections are detailed case-by-case on the attachment. Generally, they included:

Additional information not reflected in the data base.

Updating other agency recommendations or adding positions where the most recent recommendations had not been entered into the data base, and

More detailed commodity or end-use descriptions where the information in the data base was insufficient or misleading.

All of the recommended corrections were forwarded to OIRM for entry into the data base. Again, no corrections were made by any Licensing personnel or by any senior managers in the organization.

With respect to the data provided to the Congressman and the position of the other agencies, these reports were cleared with those agencies. All advisory agencies—Defense, State, Energy and the Subgroup on Nuclear Export Controls (SNEC)—have reviewed these reports and concur in the accuracy of Commerce's information and, with one exception noted below, in the manner which it appeared in the data base.

The one exception concerned the State Department, which requested a modification to the data presented to the Congressman. While Commerce's data base showed that several of the applications which had been referred to State had received a recommendation of approval, the State Department wished in those few cases to have the recommendation changed to one reflecting that State had raised no foreign policy objections. State contended that in these few cases there was not formal requirement to refer the application to State, and, thus, no formal opinion of approval from State was required. Commerce refused to alter the data base but did agree to footnote those few instances with State's preferred description of its position.

With the exception of the corrections noted above and in the attached case-by-case description, no changes were made to the data base. The printouts provided to the Congressman factually represent what is in the ECASS data base and what has always been in the ECASS data base. The ECASS system is one of exceptional security and was designed with internal safeguards and audit trails to preclude alteration.

In sum, the printout provided to Mr. Bernard is a summary reference document that is responsive to his September 28, 1990, request. The printout is also consistent with Fifth Floor guidance and requests from both State and the NSC that no additional information be provided that does not directly address the Committee's request.

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DEPARTMENT OF COMMERCE

The Inspector General,
Washington, DC, June 4, 1991.
Memorandum for: Robert A. Muehbach,
Secretary.

From: Frank DeGeorge, Inspector General.
Subject: Report on Iraqi Export License Information, Bureau of Export Administration.

At the request of the Department's General Counsel, we reviewed the release of Iraqi export license information to the Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations. Our review disclosed no evidence that Bureau of Export Administration personnel deleted entire export license records before they submitted the information requested by the Chairman. However, we did confirm an initial report by the former Under Secretary for Export Administration that a small percentage of certain data of the Iraqi export licenses processed were changed in submissions to the EIA.

Bureau personnel, including the former Under Secretary, stated that while preparing printouts for submission to the Chairman, changes were made to selected data on 66 approved export licenses for sale to Iraq. Our review disclosed changes to data on two additional licenses concerning trucks. Bureau personnel also changed permanent records on the Export Control Automated Support System database, compromising the integrity of the Iraqi license records. Neither the changes to the data provided to the Chairman nor the changes to the system database were adequately supported. Our review disclosed that the former Under Secretary concurred with all changes to the data sent to the Chairman, but was unaware of any system database changes. With the exception of changes to five truck licenses to remove a reference to their potential military use, the changes were inconsequential and eliminated apparent inconsistencies in the license information.

This report contains recommendations to ensure the integrity of the export licensing data and any such data submitted to the Congress in the future. These recommendations have been discussed and agreed to by Bureau officials; we are therefore issuing this report in final form. Department Administrative Order 312-2 requires operating units to submit an audit report action plan, including a timetable for implementation of the recommendations, within 90 days of the date of the audit report. Accordingly, we request that the acting Under Secretary of the Bureau of Export Administration be directed to submit such a plan. We are providing a copy of this report to the acting Under Secretary and to the General Counsel.

INTRODUCTION

Beginning in September 1990, Congressman Doug Barnard, Jr., Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations, sent several requests to the former Under Secretary for the Bureau of Export Administration for data of export license information on Iraq from 1988 through 1990. The former Under Secretary responded with computer printouts on October 18, October 24, and December 13, 1990.

The October 18 printouts did not show whether the licenses were referred to other departments under applicable licensing regulations. The regulations require EIA officials to submit certain license applications to the Departments of State, Energy, and Defense. The October 24 printout showed information on the referral to other agencies, but it did not show the other depart-

ments' responses or recommendations. The December 13 printouts showed all referral information, including the other department's recommendations.

On February 3, 1991, the Department's General Counsel asked the former Under Secretary to provide a report addressing whether (1) the printouts were misleading, (2) certain end users of the licensed commodities were deleted or changed, and (3) the characterizations of the licensing information had been materially changed from those originally in the system database. This information was requested because of media-reported allegations that export license information and records were deleted from the Bureau's files. The former Under Secretary provided the report on February 24, 1991, acknowledging that changes were made to the information given to the Chairman.

On March 11, following continued media reports that Iraqi export license information was deleted from the Bureau's files, the General Counsel asked the Office of Inspector General to review this matter.

PURPOSE AND SCOPE OF REVIEW

The purpose of our review was to determine (1) if any changes were made to the information prior to submission to the Chairman, (2) if any changes were made to the export control automated system database records, and (3) the accuracy and completeness of notations indicating the positions of other departments involved in reviewing licenses for export to Iraq.

We interviewed Commerce officials involved in preparing the responses to the Chairman, including the former Under Secretary, and officials from the Defense, State, and Energy Departments. We reviewed the Bureau's support for the acknowledged changes to the printouts furnished the Chairman, and determined whether Bureau personnel had also changed other license information in the export license system database. Bureau officials did not maintain any copies of the printouts provided to the Chairman, so we obtained Iraqi license information stored on magnetic tape as of May 22, 1990, and provided last August by the Bureau to another government agency. The tape did not include archived export license data for fiscal years 1988 and 1989. We also obtained a copy of the printouts from the congressional committee that received the information. We compared the copies of the printouts submitted to the Chairman with the information provided on the May 22, 1990, computer tape. We also compared the data shown on the December 13 printout with the data from the May 22 magnetic tape to determine the reliability of the brief information in the database—that is, whether export license records were deleted from the database.

We did not examine the internal controls over the input and maintenance of data in the export licensing system. Instead, we have initiated a separate review over those controls and will provide you with a copy of that report when that review is completed.

This review was performed at Bureau headquarters and at the Departments of Defense, State, and Energy in Washington, D.C. Except as noted above, the review was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-33, dated May 22, 1990, as amended.

BUREAU PERSONNEL CHANGED INFORMATION ON 66 LICENSES

In his report to the General Counsel, the former Under Secretary stated that Bureau personnel changed licensing data on 66 of the 1,130 licenses (later amended to 1,139 processed for Iraq from 1988 through August 2, 1990). Bureau personnel acknowledged one additional license data change as well as the audit. During our review, we identified two additional license data changes that were not previously acknowledged, bringing the total to 69.

The license data changes were as follows:

- (1) Descriptions of trucks were changed on five license records to eliminate a reference to a design for military use.
- (2) Notations were removed on 19 license records that had indicated referrals of licenses to another agency.
- (3) Stated positions of other agencies that review or approve licenses were changed on 26 license records.
- (4) End use statements were changed on five licenses. On four licenses for equipment used in a "magnetic media factory," the descriptions of end uses were expanded. The expansion added the phrase "to [manufacture] video tapes for consumer electronics." On one license, the exporter had inserted a comment that, "According to our information, the end user is involved in military activities" in the end use field. Bureau personnel deleted the comment.

Changes to "Military Truck" Licenses

Unjustified

The export regulations provide an export control commodity number and general description for each commodity to be exported. Bureau personnel changed the commodity description for trucks from "vehicles designed for military use" to "commercial utility cargo trucks" or "vehicles." The former term is consistent with the terms used in the export administration regulations as a general description of the trucks. We found no changes to general descriptions of other licensed commodities that made them inconsistent with the regulations.

A Bureau official told us the commodity descriptions were changed to clarify that the Bureau does not license the sale of military trucks. The official also said that the description changes were justified by State Department letter to an exporter in 1988. The letter indicated that the exporter's trucks, which were intended for sale to Iraq, were classified as "commercial utility cargo trucks."

We disagree with both reasons for changing the commodity descriptions. The export administration regulations allow the Bureau to improve licenses for the sale of military trucks that are not on the U.S. Munition List. Such vehicles are primarily transport vehicles designed for nonmilitary purposes. Additionally, when we discuss the contents of the 1984 letter with Department officials, they informed us that the letter provides no justification for the description changes. It merely informed the exporter that the trucks are not on the munition list and can be licensed by the Bureau. We conclude that the changes were unjustified and misleading.

Bureau personnel changed five license for trucks, including the two that we found. The total value of the licensed trucks was over \$1 billion, or approximately 1% of the total value of the approved export licenses for Iraq during the period under review. In fact, more than 97 percent of the total value of the changed licenses is accounted for by changes to the Iraqi license. Although the licenses were approved, Bureau personnel

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informed us that no licensed trucks have been shipped.

Justification for Deleting Computer Parts and Components Referrals Not Clear

Bureau personnel deleted 19 referral notations to other agencies; however, those notations were not clearly justified. Nine referrals to the Defense Department for computer parts and components were deleted, and ten other referrals for various other commodities were also deleted. Bureau personnel told us they deleted the notations related to the computer parts and components because the Licensing Officers' Operating Manual stipulates that parts and components licensees should not be referred to the Defense Department.

We reviewed the operating manual and found that it contained conflicting procedures as to whether licensees for computer parts and components should be referred to another agency. A dated procedure could be used to justify the referral notation deletion, but a more recent procedure required that the licensee be referred to the Defense Department for approval. Notwithstanding the position of Bureau personnel that computer parts and components are referred to the Defense Department, they were referred and licensing issues were settled among the appropriate agencies. Under the circumstances it would have been more appropriate to have included the referrals in the printed manual to explain the resultant position where necessary.

We did not review the entire manual to see if it contained other conflicting or confusing procedures. However, Bureau officials should perform such a review to ensure that licensing personnel have clear, unambiguous procedures to apply to each license application.

Adequate Documentation for Many Changes Not Provided by Bureau Personnel

We reviewed the 39 changes made to other agency positions to determine whether the changes were well documented and supported. Bureau personnel told us that the changes to other agency positions were "verifications" supported by export licensing regulations and files of original documents.

Our review of the documentation used to support the changes showed that 13 of the changes were based only upon the Bureau licensing officer's written notation that an agency position had changed. We also found that 21 of the 39 changes were not supported by reliable independent documentation. The licensing officers often did not base the changes on independent supporting documentation such as memoranda prepared by officials of other agencies.

Bureau personnel also did not provide adequate support for changes that removed notations indicating referral to other agencies. Additionally, each license application must include a statement on the end use of the commodity being exported. Bureau personnel did not provide adequate documentation to support the changes in the end use statements.

Bureau personnel stated that they had discussed all changes with officials of other agencies to confirm that the changes accurately reflected their positions. Bureau personnel further stated that these officials concurred with the changes.

We asked officials at the Energy, State, and Defense Departments to verify statements by Bureau personnel. The Energy Department official disagreed with three of 10 position changes. However, he did not indicate that additional action to correct the error was needed. A Defense Department official stated that approximately 50 personnel of the Bureau were responsible for the changes, while the Bureau's records indi-

cated that the licensees were simply approved. Another Defense Department official stated that he told the committee staff that he was satisfied with the presentation of the Defense Department's positions on the proposal. The State Department did not disagree with the stated positions. As a result of the other agency officials' comments, we consider the changes to the positions and the deletions of the referrals to have had little effect on the final license information given to the Chairman.

We found that the other agencies did not maintain complete records of the license applications submitted for their review. Defense Department officials told us they depended upon the Bureau's files to support the changes in their positions.

PERMANENT CHANGES TO THE EXPORT CONTROL AUTOMATED SUPPORT SYSTEM WERE MADE WITHOUT ADEQUATE SUPPORT

The Bureau maintains the Export Control Automated Support System, which provides license processing and historical information on export licensing activities. It also provides the data needed to support enforcement actions for export license violations. The system contains the official license application, the application tracking information, the license, and the follow-up actions.

The system allows changes to applications before they are approved; however, once a license is issued it becomes an historical record and no changes by licensing officers are permitted. The date of final action is entered automatically by the system and cannot be changed. Changes to the database can be made only by computer personnel within the Operations Division with the specific authorization of the Director, Office of Information Resources Management.

We found that Bureau personnel forwarded a list of the previously stated changes to EXCA's Office of Information Resources Management, with a request to change the permanent licensing database. OIRM officials acknowledged that they changed the license records solely on the basis of the highlighted list and oral assurances by licensing officials that the changes were justified. They neither reviewed the documentation used to support the changes nor requested copies to maintain in case questions arose in the future.

OIRM officials should have required authentication and sufficient supporting documentation before changing permanent records in the system. Changing system data without support compromises the system's integrity and confidentiality.

Recommendations

We recommend that the acting Under Secretary for Export Administration take the following actions:

1. Ensure that any future changes to export license information submitted to Congress and to the Export Control Automated Support System are authorized and adequately supported with appropriate documentation.
2. Retain complete documentation of the positions of all agencies involved in processing export license.
3. Ensure that the system database accurately reflects all agency positions.
4. Clarify the procedures in the Licensing Officers' Operating Manual for the referral to the Defense Department of license applications for computer parts and components intended for shipment to specific countries.
5. Ensure that the Licensing Officers' Operating Manual is reviewed to eliminate other conflicting or confusing licensing procedures.

CONFERENCE REPORT ON H.R. 3337, WHITE HOUSE COMMEMORATIVE COINS

MR. HUBBARD submitted the following conference report and statement on the bill (H.R. 3337) to require the Secretary of the Treasury to mint coins in commemoration of the 200th anniversary of the White House, and for other purposes:

CONFERENCE REPORT (H. REP. 103-484)

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 3337), to require the Secretary of the Treasury to mint coins in commemoration of the 200th anniversary of the White House, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with amendments as follows:

In lieu of the matter proposed to be inserted by the Senate amendment, insert the following:

TITLE V—COINS

SEC. 501. DESIGN CHANGES REQUIRED FOR CERTAIN COINS

(a) In General.—Section 5112(a) of title 31, United States Code, is amended by adding at the end the following new paragraph:

"(3) The design on the reverse side of the half-dollar and the quarter-dollar shall be redesigned for redesign. The 1-cent, 5-cent, and dime coins shall be considered for redesign. The first redesigned coin shall have a design commemorating the two hundredth anniversary of the ratification of the Bill of Rights to the United States Constitution for a period of 5 years after issuance. After the 5-year period, the biennialsign coin shall have its design changed in accordance with the provisions of this subsection. All such redesigned coins shall conform with the inscription requirements set forth in paragraph (1) of this subsection."

(b) Minting and Issuance.—The minting of the first coin selected for redesign under section 5112(a)(3) of title 31, United States Code, shall begin not later than one year after the date of enactment of this Act, and the issuance shall begin as soon as practical thereafter.

SEC. 502. SELECTION OF DESIGN

The design changes required by the amendment made by section 501 shall take place at the discretion of the Secretary of the Treasury and shall be phased in over 3 years after the date of enactment of this Act. After the expiration of one year after the second redesigned coin is put into circulation, the Congress may, at its discretion, direct the Secretary to reconsider the design of any redesigned coin. In selecting new designs, the Secretary shall consider, among other factors, graphic representations of the following: excerpts from the Bill of Rights; freedom of speech and assembly; freedom of the press; the right to due process of law; and other appropriate themes. The designs shall be selected by the Secretary upon consultation with the Commission of Fine Arts. All coins minted under section 501 shall bear the inscription "IN GOD WE TRUST" and such other inscriptions as are required by law.

SEC. 503. REDUCTION OF THE MINTAGE RATE

Section 5112(a)(1) of title 31, United States Code, is amended by inserting after the 3rd sentence the following: "Any profits received from the sale of unredesigned and

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20505

April 8, 1991

BY FAX

"Iraq"

cc: Diroschi
Covatter
Tishman
Ficker
Dickerson
Gene Bailey
David H. Hume
Blumenthal
C'Connor

MEMORANDUM FOR JEANNE S. ARCHIBALD - *Treasury*
C. BOYDEN GRAY - *White House*
FRED GREEN
MICHAEL LUTTIG - *Justice*
TERRENCE O'DONNELL - *DOO*
ALAN RAUL - *450A*
ELIZABETH RINDSKOPF
EDWIN WILLIAMSON - *State*
WENDELL WILLKIE - *Commerce*

SUBJECT: Meeting on Congressional Requests for Information and Documents

First of all, I apologize to Treasury and Agriculture for not inviting them to the meeting today on responding to congressional requests for information and documents pertaining to U.S.-Iraq policy prior to August 2, 1990. At the meeting, it became apparent that these departments should have been present. I shall schedule a meeting for tomorrow on requests pertaining to the BNL/CCC matters to which Agriculture and Treasury will be invited.

After reviewing the requests thus far received for information, today's meeting concluded that:

- Department General Counsels should review and inventory all requests to determine which, if any, raise issues of executive privilege (deliberative process, foreign relations, national security, etc.);
- Alternatives to providing documents should be explored (e.g., briefings);
- When access to documents may be recommended, such recommendation should be circulated to this group for clearance;
- A recommendation to provide access should be restricted to members only subject to these conditions: no document may be retained; notes may be taken but should be marked for classification by the department or agency in question. (FYI: our legislative affairs office recommends against insisting that members come to departments to read documents.); and

-- In any event, departments and agencies should seek guidance from this group in cases of doubt.

I hope you agree that this summary fairly represents where we came out.

Nay Hat Plante

Nicholas Rostow *for*
Special Assistant to the President
and Legal Adviser



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

April 17, 1991

MEMORANDUM FOR THE SECRETARY

FROM: Alan Charles Raul *AR*
General Counsel

SUBJECT: Iraq-Related Document Requests;
Response to Congressman Rose

ISSUE

On April 15, Gene Bailey and I attended a meeting called by the NSC to discuss the Administration's response to Congressional requests for Iraq-related documents. USDA has received document requests from Congressman Gonzalez, Chairman of the House Banking Committee, and from Congressman Rose of the House Agriculture Committee.

Congressman Rose wrote to you on April 12, 1991 (copy attached), expressing his request for documents in rather forceful terms. A proposed reply for your signature is attached.

DISCUSSION

1. **Background.** The NSC's legal adviser and director of legislative affairs called an inter-agency meeting to discuss the Administration's response to numerous requests for Iraq-related documents. Boyden Gray attended the meeting, as did the Assistant Attorney General for the Office of Legal Counsel and the legal and congressional officers for State, Treasury, Commerce, and Energy Departments as well as the CIA, NSA and Joint Chiefs of Staff. Each agency reported on document requests it had received. The House Banking Committee, House Agriculture Committee, House Ways and Means Committee, General Accounting Office, perhaps the Foreign Relations Committees, as well as other committees, are requesting Iraq-related materials.

The Treasury Department reported that it had permitted Hill staff to review the National Advisory Council minutes regarding inter-agency consideration of the Iraq GSM request. The NAC minutes were reviewed in the offices of the Treasury Department; the Committee staff was not provided with any copies of the NAC minutes. Congressional staff members were not even permitted to take notes on any classified minutes.

2. Deliberative Materials. The Justice Department emphasized the need to determine which documents contained information that could be central to the Presidency, such as national security, diplomatic and other deliberative matters. The Assistant Attorney General also suggested that minority as well as majority staff members be included in whatever document review is allowed. He further suggested that, if appropriate, agencies should consider entering into confidentiality agreements with the Congressional committees or editing out the deliberative or advisory portions of potentially privileged documents.

3. Coordination and Review. The meeting concluded with NSC suggesting that the coordinating process would continue to be available so that agencies do not pursue inconsistent approaches. It was also noted that the objective is to cooperate with Congress, while also ensuring that appropriate protections are accorded to deliberative materials. Also, the inter-agency nature of the subject should be recognized -- therefore, agencies should not act unilaterally. In particular, an agency should not disclose documents in its files that were originated by another agency without advance consultation.

Finally, it was agreed that materials should be reviewed before being provided to the Congressional committees and that each agency should maintain a list or copies of the documents provided.

4. Suggested Guidelines. I propose the following procedures and guidelines in response to these document requests within USDA:

1. Requests should be received in writing.
2. Party receiving request should forward copies to:
 - a. Blumenthal/O'Connor (Cage)
 - b. Raul/Brosch (OGC)
 - c. Crowder/Acker/Hovermale (IACF/FAS)
 - d. Bailey (OCR)
 - e. Sneed (OIG)
3. OGC will review each request and provide advice.
4. Potentially responsive files and/or documents will be reviewed or evaluated by OGC.
5. To the extent requested and appropriate (within OGC advice), access to files may be provided.

Memorandum for the Secretary

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6. Relevant agency will make copies of potentially responsive materials and provide to OGC.
7. Agency or OGC (to be decided after consultation) will provide copies to Committee with appropriate cover letter drafted by OGC.

SUMMARY

The NSC is providing coordination for the Administration's response to Congressional document requests for Iraq-related materials. The process is intended to be a cooperative one; it also recognizes the Executive Branch's appropriate confidentiality interests. Many Congressional committees are investigating the subject, including the House Banking Committee and House Agriculture Committee. These two committees have submitted document requests to USDA.

In connection with the request from the House Agriculture Committee, a proposed response to Congressman Rose's April 12 letter to you is attached.

Attachment

cc w/attachment:

Richard T. Crowder
F. Eugene Bailey
Leon Saeed
Kelly M. Shipp
Gary R. Blumenthal
William O'Connor



The Under Secretary for Export Administration
Washington, D.C. 20230

February 26, 1991

MEMORANDUM FOR WENDELL WILLKIE
General Counsel

FROM: Dennis Kloske *DK*
SUBJECT: Iraq Printout

At your request, I have asked the Office of Export Licensing staff to prepare a report on the preparation of the printout for Chairman Barnard. A copy of this report titled "Iraq Data Base Assessment" is attached, along with Qs & As and a case-by-case summary of any corrections made to the printout. I believe this fully responds to your memorandum to me of February 8. The first printout provided to the Committee is a summary reference document which is responsive to the Chairman's request concerning the history of exports to Iraq. The document also reflects Fifth Floor and White House guidance not to provide information that was not directly responsive to the Chairman's request. Please note that to date, four printouts have been provided to the Committee -- the first two by ECCNs, and the other two by end-users.

I have also been informed that the list of four suspended cases to Iraq was not supplied to the Committee, although Mr. Jacobs, Barnard's Chief of Staff, was told about it during one of the briefing sessions. I have given instructions that the list be given to the Committee.

I would be happy to brief you on the report in greater detail.

Attachments

IRAQ DATA BASE ASSESSMENT

Information on export license applications to Iraq is contained in the Export Control Automated Support System (ECASS) data base. That data base contains more than 1.5 million records dating back to 1980. There are more than 400 different computer programs that can be used to access the data base to obtain different information.

Records dating back to 1980 are very sketchy and cover little more than the date of receipt and final action. In the mid-1980s, the data base improved greatly but still contained many inaccuracies as data was inputted by key punch operators. In 1988, the data base accuracy increased once again as application information was entered either electronically from the exporter or by scanning applications with Optical Character Readers.

The actual data base can only be modified by the Director of the Office of Information Resources Management (OIRM) or by his Deputy. No one in the licensing office nor any senior management official has the capability to access the computer and modify an existing data.

Congressman Barnard requested on September 28, 1990, a list of all export licenses to Iraq from 1985 to August 2, 1990. He asked for:

- o Disposition of each license application,
- o Requestor of each license application,
- o Product to be exported,
- o Approximate value of sale,
- o End-Use,
- o End-User, and
- o Export Commodity Control Number (ECCN).

The Congressman stated in his request that he understood that "the requested information is on a computer data base and is readily accessible."

Accordingly, we decided to respond to the Congressman's request by preparing a printout generated by the ECASS data base. For the disposition of the export license application, we asked the computer to list whether the case was approved, rejected, returned without action, or embargoed. For the requestor, we provided the name of the applicant -- the exporter.

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For the product to be exported, we used the description associated with the Export Control Commodity Number (ECCN) contained in the data base. We thought this would be more helpful to the Congressman rather than printing out the lengthy listings of technical specifications and model numbers. Thus, for example, a product description read; "Electronic Computer ar Equipment" rather than the specific model and technical details of the computer in the application.

For the value, we used the value submitted with the application. For the end-user, we asked for the ultimate consignee. For the end-use, we asked the computer to printout the end-use as listed in the data base. For the ECCN, we provided the ECCN.

In reviewing the printouts before their submission to the Congressman, we compared each entry for accuracy with information that was available on microfiche records. In 65 instances out of the 1,126 licenses processed for Iraq during this period, we found that the data base did not correctly reflect the disposition of the application. Not surprisingly, most of these instances were for applications before 1988. Based on concrete and specific documentation available on microfiche, we corrected the data base by including the additional information. These corrections are detailed case-by-case on the attachment. Generally, they included:

- o Additional information not reflected in the data base,
- o Updating other agency recommendations or adding positions where the most recent recommendations had not been entered into the data base, and
- o More detailed commodity or end-use descriptions where the information in the data base was insufficient or misleading.

All of the recommended corrections were forwarded to OIRM for entry into the data base. Again, no corrections were made by licensing personnel or by any senior managers in the organization.

With respect to the data provided to the Congressman and the positions of the other agencies, these reports were cleared with those agencies. All advisory agencies -- Defense, State, Energy and the Subgroup on Nuclear Export Controls (SNEC) -- have reviewed these reports and concur in the accuracy of Commerce's information and, with one exception noted below, in the manner which it appeared in the data base.

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The one exception concerned the State Department, which requested a modification to the data presented to the Congressman. While Commerce's data base showed that several of the applications which had been referred to State had received a recommendation for approval, the State Department wished in those few cases to have the recommendation changed to one reflecting that State had raised no foreign policy objections. State contended that in these few cases there was no formal requirement to refer the application to State, and, thus, no formal opinion of approval from State was required. Commerce refused to alter the data base but did agree to footnote those few instances with State's preferred description of its position.

With the exception of the corrections noted above and in the attached case-by-case description, no changes were made to the data base. The printouts provided to the Congressman factually represent what is in the ECASS data base and what has always been in the ECASS data base. The ECASS system is one of exceptional security and was designed with internal safeguards and audit trails to preclude alteration.

In sum, the printout provided to Mr. Barnard is a summary reference document that is responsive to his September 28, 1990 request. The printout is also consistent with Fifth Floor guidance and requests from both State and the NSC that no additional information be provided that does not directly address the Committee's request.



UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, DC 20230

JUN 04 1991

MEMORANDUM FOR: Robert A. Mosbacher
Secretary

FROM: Frank DeGeorge
Inspector General *Frank DeGeorge*

SUBJECT: Report on Iraqi Export License Information
Bureau of Export Administration
STD-206-1-0004

At the request of the Department's General Counsel, we reviewed the releases of Iraqi export license information to the Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations. Our review disclosed no evidence that Bureau of Export Administration personnel deleted entire export license records before they submitted the information requested by the Chairman. However, we did confirm an initial report by the former Under Secretary for Export Administration that a small percentage of certain data of the Iraqi export licenses processed were changed in submissions to the Hill.

Bureau personnel, including the former Under Secretary, stated that while preparing printouts for submission to the Chairman, changes were made to selected data on 66 approved export licenses for sales to Iraq. Our review disclosed changes to data on two additional licenses concerning trucks. Bureau personnel also changed permanent records on the Export Control Automated Support System database, compromising the integrity of the Iraqi license records. Neither the changes to the data provided to the Chairman nor the changes to the system database were adequately supported. Our review disclosed that the former Under Secretary concurred with all changes to the data sent to the Chairman, but was unaware of any system database changes. With the exception of changes to five truck licenses to remove a reference to their potential military use, the changes were inconsequential and eliminated apparent inconsistencies in the license information.

This report contains recommendations to ensure the integrity of the export licensing data and any such data submitted to the Congress in the future. These recommendations have been discussed and agreed to by Bureau officials; we are therefore issuing this report in final form. Department Administrative Order 213-5 requires operating units to submit an audit report action plan, including a timetable for implementation of the recommendations, within 90 days of the date of the audit report. Accordingly, we request that the acting Under Secretary of the Bureau of Export Administration be directed to submit such a

plan. We are providing a copy of this report to the acting Under Secretary and to the General Counsel.

Introduction

Beginning in September 1990, Congressman Doug Barnard, Jr., Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations, sent several requests to the former Under Secretary for the Bureau of Export Administration for lists of export license information on Iraq from 1985 through 1990. The former Under Secretary responded with computer printouts on October 10, October 24, and December 12, 1990.

The October 10 printouts did not show whether the licenses were referred to other departments under applicable licensing regulations. The regulations require BXA officials to submit certain license applications to the Departments of State, Energy, and Defense. The October 24 printout showed information on the referral to other agencies, but it did not show the other departments' responses or recommendations. The December 12 printouts showed all referral information, including the other departments' recommendations.

On February 8, 1991, the Department's General Counsel asked the former Under Secretary to provide a report addressing whether (1) the printouts were misleading, (2) certain end users of the licensed commodities were deleted or changed, and (3) the characterizations of the licensing information had been materially changed from those originally in the system database. This information was requested because of media-reported allegations that export license information and records were deleted from the Bureau's files. The former Under Secretary provided the report on February 26, 1991, acknowledging that changes were made to the information given to the Chairman.

On March 11, following continued media reports that Iraqi export license information was deleted from the Bureau's files, the General Counsel asked the Office of Inspector General to review this matter.

Purpose and Scope of Review

The purpose of our review was to determine (1) if any changes were made to the information prior to submission to the Chairman, (2) if any changes were made to the export control automated system database records, and (3) the accuracy and completeness of notations indicating the positions of other departments involved in reviewing licenses for exports to Iraq.

We interviewed Commerce officials involved in preparing the responses to the Chairman, including the former Under Secretary,

and officials from the Defense, State, and Energy Departments. We reviewed the Bureau's support for the acknowledged changes to the printouts furnished the Chairman, and determined whether Bureau personnel had also changed other license information in the export license system database. Bureau officials did not maintain any copies of the printouts provided to the Chairman, so we obtained Iraqi license information stored on magnetic tape as of May 22, 1990, and provided last August by the Bureau to another government agency. The tape did not include archived export license data for fiscal years 1985 and 1986. We also obtained a copy of the printouts from the congressional committee that received the information. We compared the copies of the printouts submitted to the Chairman with the information provided on the May 22, 1990, computer tape. We also compared the data shown on the December 12 printout with the data from the May 22 magnetic tape to determine the reliability of the Iraqi information in the database -- that is, whether export license records were deleted from the database.

We did not examine the internal controls over the input and maintenance of data in the export licensing system. Instead, we have initiated a separate review over these controls and will provide you with a copy of that report when that review is completed.

This review was performed at Bureau headquarters and at the Departments of Defense, State, and Energy in Washington, D.C. Except as noted above, the review was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

Bureau Personnel Changed Information on 68 Licenses

In his report to the General Counsel, the former Under Secretary stated that Bureau personnel changed licensing data on 65 of the 1,126 licenses (later amended to 1,130) processed for Iraq from 1985 through August 2, 1990. Bureau personnel acknowledged one additional license data change as we began the audit. During our review, we identified two additional license data changes that were not previously acknowledged, bringing the total to 68.

The license data changes were as follows:

- (1) Descriptions of trucks were changed on five license records to eliminate a reference to a design for military use.
- (2) Notations were removed on 19 license records that had indicated referrals of licenses to another agency.
- (3) Stated positions of other agencies that review or approve

licenses were changed on 39 license records.

- (4) End use statements were changed on five licenses. On four licenses for equipment used in a "magnetic media factory," the descriptions of end uses were expanded. The expansion added the phrase "to [manufacture] video tapes for consumer electronics." On one license, the exporter had inserted a comment that, "According to our information the end user is involved in military matters" in the end use field. Bureau personnel deleted the comment.

Changes to "Military Truck" Licenses Unjustified

The export regulations provide an export control commodity number and general description for each commodity to be exported. Bureau personnel changed the commodity description for trucks from "VEHICLES DESIGNED FOR MILITARY USE" to "COMMERCIAL UTILITY CARGO TRUCKS" or "VEHICLES." The former term is consistent with the terms used in the export administration regulations as the general description of the trucks. We found no changes to general descriptions of other licensed commodities that made them inconsistent with the regulations.

A Bureau official told us the commodity descriptions were changed to clarify that the Bureau does not license the sale of military trucks. The official also said that the description changes were justified by a State Department letter to an exporter in 1983. The letter indicated that the exporter's trucks, which were intended for sale to Iraq, were classified as "commercial utility cargo truck(s)."

We disagree with both reasons for changing the commodity descriptions. The export administration regulations allow the Bureau to approve licenses for the sale of military trucks that are not on the U. S. Munitions List. Such vehicles are primarily transport vehicles designed for noncombat military purposes. Additionally, when we discussed the contents of the 1983 letter with State Department officials, they informed us that the letter provides no justification for the description changes. It merely informed the exporter that the trucks are not on the munitions list and can be licensed by the Bureau. We conclude that the changes were unjustified and misleading.

Bureau personnel changed five licenses for trucks, including the two that we found. The total value of the licensed trucks was over \$1 billion, or approximately 2/3 of the total value of the approved export licenses for Iraq during the period under review. In fact, more than 97 percent of the total value of the changed licenses is accounted for by changes to the truck licenses. Although the licenses were approved, Bureau personnel informed us that no licensed trucks have been shipped.

Justification for Deleting Computer Parts and Components Referrals Not Clear

Bureau personnel deleted 19 referral notations to other agencies; however, those actions were not clearly justified. Nine referrals to the Defense Department for computer parts and components were deleted, and ten other referrals for various other commodities were also deleted. Bureau personnel told us they deleted the notations related to the computer parts and components because the Licensing Officers' Operating Manual stipulates that parts and components licenses should not be referred to the Defense Department.

We reviewed the operating manual and found that it contained conflicting procedures as to whether licenses for computer parts and components should be referred to another agency. A dated procedure could be used to justify the referral notation deletions, but a more recent procedure required that the licenses be referred to the Defense Department for approval. Notwithstanding the position of Bureau personnel that computer parts and components need not be referred to the Defense Department, they were referred and licensing issues were settled among the appropriate agencies. Under the circumstances it would have been more appropriate to have included the referrals in the printouts and explain the resultant positions where necessary.

We did not review the entire manual to see if it contained other conflicting or confusing procedures. However, Bureau officials should perform such a review to ensure that licensing personnel have clear, unambiguous procedures to apply to each license application.

Adequate Documentation for Many Changes Not Provided by Bureau Personnel

We reviewed the 39 changes made to other agency positions to determine whether the changes were well documented and supported. Bureau personnel told us that the changes to other agency positions were "corrections" supported by export licensing regulations and files of original documents.

Our review of the documentation used to support the changes showed that 13 of the changes were based only upon the Bureau licensing officer's written notation that an agency position had changed. We also found that 31 of the 39 changes were not supported by reliable independent documentation. The licensing officers often did not base the changes on independent supporting documentation such as memoranda prepared by officials of other agencies.

Bureau personnel also did not provide adequate support for changes that removed notations indicating referral to other

agencies. Additionally, each license application must include a statement on the end use of the commodity being exported. Bureau personnel did not provide adequate documentation to support the changes in the end use statements.

Bureau personnel stated that they had discussed all changes with officials of other agencies to confirm that the changes accurately reflected their positions. Bureau personnel further stated that these officials concurred with the changes.

We asked officials at the Energy, State, and Defense Departments to verify statements by Bureau personnel. The Energy Department official disagreed with three of 10 position changes. However, he did not indicate that additional action to correct the record was needed. A Defense Department official stated that approximately 30 percent of the licenses were approved "with conditions," while the Bureau's records indicated that the licenses were simply approved. Another Defense Department official stated that he told the committee staff that he was satisfied with the presentation of the Defense Department's positions on the printout. The State Department did not disagree with the stated positions. As a result of the other agency officials' comments, we consider the changes to the positions and the deletions of the referrals to have had little effect on the Iraqi license information given to the Chairman.

We found that the other agencies did not maintain complete records of the license applications submitted for their review. Defense Department officials told us they depended upon the Bureau's files to support the changes in their positions.

Permanent Changes to the Export Control Automated Support System Were Made Without Adequate Support

The Bureau maintains the Export Control Automated Support System, which provides license processing and historical information on export licensing activities. It also provides the data needed to support enforcement actions for export license violations. The system contains the official license application, the application tracking information, the license, and the follow-up actions.

The system allows changes to applications before they are approved; however, once a license is issued it becomes an historical record and no changes by licensing officers are permitted. The date of final action is entered automatically by the system and cannot be changed. Changes to the database can be made only by computer personnel within the Operations Division with the specific authorization of the Director, Office of Information Resources Management.

We found that Bureau personnel forwarded a list of the previously stated changes to BXA's Office of Information Resources

Management, with a request to change the permanent licensing database. OIRM officials acknowledged that they changed the license records solely on the basis of the highlighted list and oral assurances by licensing officials that the changes were justified. They neither reviewed the documentation used to support the changes nor requested copies to maintain in case questions arose in the future.

OIRM officials should have required authorization and sufficient supporting documentation before changing permanent records in the system. Changing system data without support compromises the system's integrity and confidentiality.

Recommendations

We recommend that the acting Under Secretary for Export Administration take the following actions:

1. Ensure that any future changes to export license information submitted to Congress and to the Export Control Automated Support System are authorized and adequately supported with appropriate documentation.
2. Retain complete documentation of the positions of all agencies involved in processing export licenses.
3. Ensure that the system database accurately reflects all agency positions.
4. Clarify the procedures in the Licensing Officers' Operating Manual for the referral to the Defense Department of license applications for computer parts and components intended for shipment to specific countries.
5. Ensure that the Licensing Officers' Operating Manual is reviewed to eliminate other conflicting or confusing licensing procedures.

cc: Wendell Willkie
Joan McEntee

Special Order - April 28, 1992

Kissinger Associates, Scowcroft, Eagleburger, Stoga, Iraq and BNL

- Background on BNL scandal
- Henry A. Kissinger, BNL and Iraq
- Importance of the BNL scandal
- Brent Scowcroft, BNL, and Iraq
- White House and Scowcroft-led NSC role in BNL handling
- Mr. Scowcroft, BNL and the CCC
- NSC staff heavily involved in CCC decision
- NSC and USDA study of BNL
- Scowcroft gets in the act
- NSC and White House involved in thwarting investigation of Iraqis?
- Eagleburger, BNL and Iraq
- Winning approval of the CCC program for Iraq
- BCCI affiliate a client of Kissinger Associates
- Conclusion

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CONGRESSIONAL RECORD — HOUSE

April 22, 1992

that we hope our colleagues are going to embrace and help us move.

Mr. Speaker, the States need the Federal Government to make the necessary changes in the Federal codes, and they need it now. The States are looking to the Federal Government for some leadership here. In fact, they say—the American public also say, “We do not want to wait any longer.”

If we stall, we are faced with the pay or play. Pay or play is a very bad label. It is pay a lot or play in the sense you are not going to enjoy this play. It is not play, have fun play. Pay or play is not a good option. In fact, it will become an unbearable reality not only for Floridians if Florida does not clean up its act and come up with a program—and Florida, of course, is asking that we as the Federal Government do that first so that they can be consistent with what we are trying to do. And as I say, they are trying to do the very type of thing that H.R. 4280 proposes to do.

Mr. Speaker, as the gentleman from Arizona (Mr. Rosten) has outlined, the bill, H.R. 4280, can translate some of the waste and mismanagement of our current system into health care for millions of individuals. We are already talking about making savings by doing things more efficiently and more properly and passing those savings on to the people who cannot afford health care now. Those savings become their vehicle to get the quality health care that many Americans enjoy because they do not have insurance.

We must consider this, I suppose, a preliminary step because it does not solve all the problems, but H.R. 4280 does reform malpractice laws, which is a big-ticket item in terms of cost, which obviously has many defensive medical practices costs involved in it, not only the awards in court but the practices that doctors take and the medical profession undertakes to protect themselves from suits.

H.R. 4280 introduces necessary controls and incentives into the small-business insurance group market, where they are very badly needed, and small groups talk to small business, and small business is very much involved. It is what the economy of our Nation is about.

It cuts administrative waste from large self-insured corporations by providing a new approach to them which involves individual participation, something that the gentleman from Arizona referred to, a medical savings account option, similar to an IRA. We are taking something that works and applying it to an area where it fits a need.

Mr. Speaker, unlike other bills, we have done something in H.R. 4280 that has a lot in places like Florida, and that is emphasis on long-term care by providing cost-effective options for today's elderly but also using tomorrow's seniors to utilize long-term

health care insurance, which we provide for.

There is really nothing controversial or drastic in what we have done here. It is certainly not going to change the face of our health care delivery system, but it certainly, also, can prevent the cost shifting that we all understand is going on, that is currently outpacing millions of our citizens from the health care they need.

We need relief, people are saying that they have a right to expect that relief, they are looking for us to do it, and I suspect that we have come forward in good faith with H.R. 4280, which is a step that is doable now. It should be palatable to both sides of the aisle. People are serious about this. The leadership on both sides is, as we know, I think we have done something worth looking at here. I recommend that we seize the day before we are faced with the solution of last resort, and that will be the unaffordable, and I emphasize the word unaffordable, single-payer system. So let us take the responsible approach by providing real and sustainable access to affordable health care. I think we have carved a way to do it. It is time to walk down the path, and I compliment my friend, the gentleman from Arizona (Mr. Rosten), for his initiative today and in arranging for this time and for his tireless efforts on bringing the legislation to this point. I urge my colleagues to pay attention to this and join with us. This is worth doing. It is doable.

Mr. RHODES. I thank the gentleman for his comments, which are very much to the point.

In conclusion, let me just say to my colleagues and to the American people, we are not advertising H.R. 4280 as a comprehensive solution to all the problems that exist in the health care system. We do not believe that we are ready yet for that. But if you as a Member of the House are planning to wait until there is a magic pill that comes along that cures everything, H.R. 4280 is not for you. But if you believe, as we do, there are steps that can be taken now to assist people who currently do not have access to our health care system, to obtain that access, if you agree with us that having 35 million people in this country uninsured is not acceptable, especially when you consider that 70 percent of those 35 million are either employed or are dependents of persons who are employed, that that situation is not acceptable, if you agree with us that we cannot put the burden of resolving the health care accessibility issue on the backs of small businesses or on the backs of the taxpayers, then we think H.R. 4280 is for you.

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Mr. Speaker, we write our colleagues to take a good hard look at it and we urge them to join us in cosponsoring it and urge them to join us in urging the leadership of the House to

bring it forward in this year so that we can address this problem that we have ignored for too long now.

As I said before, the citizens of this country deserve nothing less.

The SPEAKER pro tempore (Mr. Neal of North Carolina). Under a previous order of the House, the gentleman from Michigan (Mr. Levin) is recognized for 60 minutes.

(Mr. LEVIN of Michigan addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Maryland (Mrs. BARTLEY) is recognized for 60 minutes.

(Mrs. BARTLEY of Maryland addressed the House. Her remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from New York (Mr. Owens) is recognized for 60 minutes.

(Mr. OWENS of New York addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

SUNDAY MESSAGES FROM THE PRESIDENT

Sunday messages in writing from the President of the United States were communicated to the House by Mr. McCallahan, one of his secretaries.

KISSINGER ASSOCIATE, SCOWCROFT, EAGLEBURGER, STOGA, IRAQ, AND BNL

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Texas (Mr. GONZALEZ) is recognized for 60 minutes.

Mr. GONZALEZ. Mr. Speaker, today I will talk about Henry Kissinger, his consulting firm Kissinger Associates, two former Kissinger Associates directors, Lawrence Eagleburger and Brent Scowcroft, and the chief economist at Kissinger Associates, Alan Sioga.

I will explore their links to Banca Nazionale del Lavoro (BNL) and Iraq, and the Bush administration's handling of the BNL scandal. But first, I will provide some background information on the BNL scandal.

BACKGROUND OF BNL SCANDAL

BNL is one of the largest banks in Italy with assets over \$100 billion. At the time the BNL scandal was disclosed in August 1990, BNL was 99 percent owned by the Italian Government. BNL has operations around the world including U.S. branches in Chicago, Los Angeles, Miami, Atlanta, and its U.S. headquarters in New York.

Several former employees of the Atlanta branch of BNL conspired to provide the Government of Iraq with over

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\$4 billion in unreported loans between 1985 and 1990. They accomplished this massive fraud by keeping a secret out of accounting records that concealed the over \$4 billion in loans to Iraq.

These secret books were presumably not furnished to BNL's management in Rome or to the bank regulatory agencies responsible for regulating BNL's operations in the United States. To date, several of the former employees have pleaded guilty to the conspiracy and signing false financial statements. The former manager of BNL, Chris Drogoul, goes to trial on June 2. He claims that the BNL management in Rome was aware of the loans to Iraq and the United States and Italian Governments should have been aware of the loans.

The \$4 billion plus in BNL loans to Iraq between 1985 and 1990 were crucial to Iraqi efforts to feed its people and to build weapons of mass destruction. In addition, the BNL loans were crucial to Reagan and Bush administration efforts to assist Saddam Hussein.

The loans to Iraq were split just about evenly between agricultural and industrial loans. Iraq used a little over \$3 billion to purchase agricultural products and to pay for the shipping charges associated with the delivery of those products. Well over \$800 million of agriculture-related loans were guaranteed by the U.S. Department of Agriculture's (USDA's) Commodity Credit Corporation.

BNL was the largest participant in the Commodity Credit Corporation (CCC) program that Iraq used to purchase about \$5 billion in United States agricultural commodities between 1983 and 1990. Had the USDA ever inspected the publicly available financial statements of BNL, they would have most likely uncovered the scandal years earlier.

The remaining \$3 billion plus in BNL loans to Iraq went to Iraqi Government entities involved in running a secret Iraqi military technology procurement network. The procurement network, which operated through front companies situated in Europe and the United States, used the BNL loans to supply Iraqi missile, chemical, biological and nuclear weapons programs with industrial goods such as computer controlled machine tools, computers, scientific instruments, special alloy steel and aluminum, chemicals, and other industrial goods.

A number of the procurement network's imports from the United States were guaranteed by the Export-Import Bank. In fact, BNL was also a major participant in the Export-Import Bank program for Iraq. In total, the Eximbank program helped to finance the sale of over \$300 million in industrial goods to various Iraqi Government entities.

It is truly amazing that the BNL scandal went on as long as it did. Various agencies within our Government knew of BNL's role in bankrolling

Iraq—yet they supposedly did not know that the loans were unauthorized or not properly reported. How is this possible? The committee is still investigating the extent to which the U.S. Government had knowledge of the BNL scandal.

Several of BNL's high level friends in the United States should have been aware of the BNL loans to Iraq. The high level patrons that I am referring to are Henry Kissinger, and his Kissinger Associates compadres, Brent Scowcroft and Lawrence Eagleburger.

Several Kissinger Associates clients had extensive dealings with Iraq including Volvo, Midland Bank, Chase Manhattan Bank, Fiat, and Asea Braun Boveri and those same companies also were the beneficiaries of BNL loans to Iraq or were involved in some way with BNL-Atlanta.

Kissinger, Scowcroft, and Eagleburger maintain that they were unaware of the BNL loans to Iraq. I offer no definitive proof that they were aware of the BNL loans, but I will explore in more detail their interlocking relationships with BNL and Iraq.

In addition, I will reveal that both Mr. Eagleburger and Mr. Scowcroft played a key role in the Bush administration's handling of the BNL scandal, even though BNL was a paying client of Kissinger Associates just months prior to the BNL scandal becoming public.

HENRY A. KISSINGER, BNL, AND IRAQ

Henry Kissinger is one of the best known and most powerful Presidential advisers of the post-World-War II era. He began his political career in 1956 as a consultant on military affairs. He has also advised many executive-branch organizations including the Joint Chiefs of Staff, the National Security Council, and the Department of State.

In 1969, he became President Nixon's National Security Adviser, and in 1973 Nixon named him Secretary of State. He held that post until 1977. In 1969, Mr. Kissinger was appointed as a member of the President's Foreign Intelligence Advisory Board (PIAB). Members in this elite club are permitted access to highly classified information and members actually advise the President on intelligence issues.

Today, Mr. Kissinger is active as a foreign policy analyst and consultant through the firm that bears his name, Kissinger Associates, Inc. He founded the firm in 1962, and he has offices in New York and Washington. Kissinger Associates analyzes political risk and international economic trends to help clients make business decisions about operations in a foreign country.

KISSINGER DELIBERATELY RETRAINED PUBLIC

Until recently, Mr. Kissinger was a member of the BNL's international advisory board and during the height of the BNL-Atlanta scandal BNL was a paying client of Kissinger Associates.

While Henry Kissinger was a paid member of the BNL's advisory board

for international policy between 1985 and June 1991, he received at least \$18,000 for attending each meeting of the BNL advisory board. Mr. Kissinger met each year with the president of BNL when the latter visited the United States to attend the annual NBP conference in Washington, D.C.

Other BNL advisory board members included David Rockefeller, the chairman of the Rockefeller Group and a director of Chase Manhattan Bank, Pierre Trudeau, the former Prime Minister of Canada, Lord Thorneycroft, the former British Minister of Defense, and other politically well-connected international notables.

After my April 25, 1991, floor statement on Mr. Kissinger, he told the Financial Times newspaper that he had resigned from the BNL advisory board a week before the BNL indictment in February 1991 because "he did not want to answer questions about such incidents."

Two weeks ago, the prominent TV show, "60 Minutes," revealed that Kissinger had not resigned from the BNL advisory board in February 1991, as he had told the Financial Times. In fact, "60 Minutes" reported that Mr. Kissinger served on BNL's advisory board until his contract expired in the summer of 1991, more than 4 months after the date he had previously reported.

Mr. Kissinger was not the only Kissinger Associates employee that dealt with BNL. Mr. Brent Scowcroft, the vice chairman and Mr. Lawrence Eagleburger, the president of Kissinger Associates also had relationships with BNL.

IMPORTANCE OF THE BNL SCANDAL

Before detailing the relationship between BNL and Mr. Scowcroft and Mr. Eagleburger and the role they played in the handling of the BNL scandal, I will provide some background in order to put their actions into perspective.

As I have shown in previous floor statements, the BNL scandal was closely linked to the decline of the United States-Iraq relations. I have introduced numerous documents showing that the CCC program for Iraq was the cornerstone of United States-Iraq relations. In turn, BNL was the largest participant in the CCC program for Iraq.

When the BNL criminal investigation in Atlanta uncovered significant fraud and abuse in the CCC program for Iraq, it jeopardized the continuation of the CCC program and the cornerstone of United States-Iraq relations began to crack. The BNL investigation also revealed that high-level Iraqi Government officials were involved in the scandal, including the second most powerful man in Iraq, Saddam Hussein's son-in-law, Hussein Kamel.

To show the link between the BNL scandal and the CCC program, consider on October 12, 1990, State Department memo that states:

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The unfolding BNL scandal is directly involved with the Iraqi CCC program and cannot be separated from it.

To illustrate of the serious problems uncovered by the BNL investigation and the scandal's potential influence on the CCC program for Iraq is contained in an October 1989 State Department memo which states:

There are currently 19 separate investigations of BNL Atlanta branch activity to Iraq. It now appears that at a minimum, elements of the Government of Iraq knew of the illegal dealings of the BNL, but found it convenient to continue using its good offices. Indications are that in addition to violating U.S. banking laws, the BNL's activities with Iraq may have led to diversion of CCC guaranteed funds from commodity programs into military sales. . . . The U.S. Department of Agriculture expects that the investigation could blow the roof off the CCC. If events indicate this, we may be facing a few alarm bells in the near future. . . . there were 19 investigations of CCC this year (1989) and the integrity of the program is now in question.

The importance of the BNL scandal was not lost on Mr. Scowcroft or Mr. Eagleburger. I will now provide some details on their roles in handling the BNL scandal.

MEET SCOWCROFT, BNL, AND IRAQ

One of the most prominent of the Kissinger Associates alumni is Brent Scowcroft, President Bush's current National Security Adviser and head of the NSC staff. Early in his military career, Scowcroft served 1 year as the air attache at the United States Embassy in Belgrade, Yugoslavia. In total, Mr. Scowcroft has held various positions in six administrations.

After earning a Ph.D. and working in academia from 1962 to 1968, he held a succession of national security posts in the Department of Defense. In 1971, President Nixon appointed Scowcroft military aide to the President, and in 1973 Kissinger chose him to be Deputy Assistant to the President for National Security Affairs.

Scowcroft often took charge of the National Security Council while Kissinger was fulfilling his duties as Secretary of State, and in 1975 he succeeded Kissinger as National Security Adviser to President Ford. Although he resigned the position during the Carter administration, Scowcroft stayed active as a member of the President's general advisory committee on arms control.

In 1982, Scowcroft joined Kissinger in setting up Kissinger Associates. Scowcroft served as vice chairman and head of Kissinger Associate's Washington, DC, office until becoming the head of the National Security Council under President Bush in January 1989.

I will not show that President Bush's top advisers at the White House were directly involved in the handling of the BNL scandal. They intervened in late 1989 to make sure that Iraq received a \$1 billion allocation of CCC credits for fiscal year 1990

despite the findings of the BNL investigators in Atlanta.

The former Deputy Assistant to the President, and Director of Cabinet Affairs, Mr. Steve Danszansky was one of President Bush's staff assigned responsibility for overseeing the late 1989 decision to provide Iraq with \$1 billion in CCC credits. Mr. Danszansky received regular updates on the BNL scandal as well as progress reports on the USDA's efforts to win approval for the CCC program for Iraq.

An October 30, 1989, USDA memo on the CCC program and the BNL scandal that was sent to Mr. Danszansky states:

"Please let me know if you . . . have any questions on this, or if I can provide further information on the situation with Banca Nazionale del Lavoro."

But Mr. Danszansky's role went beyond monitoring the BNL scandal and the decision to grant Iraq additional CCC credits. A November 7, 1989, USDA General Counsel memo to Mr. Danszansky regarding the decision to grant the \$1 billion CCC program for Iraq states:

Steve, attached are possible materials for circulation by Treasury for tomorrow's NAC meeting. Thanks for your help on all this and please let me know if there are any additional materials I should prepare.

That comment shows that the USDA staff was taking orders from Mr. Danszansky and that Mr. Danszansky was assisting the USDA in winning approval for the fiscal year 1990 CCC program for Iraq. In addition, Mr. Danszansky personally attended the November 1989 NAC meeting that made the decision on the CCC program.

Several Administration officials have told the Banking Committee that this was the first time that a White House official sat in on a NAC decision to grant credits to a foreign country. That meeting also marked the first time in the history that the minutes of a NAC meeting were classified so as to restrict access to the public, and the Congress.

There are other CCC/BNL-related documents with Mr. Danszansky's name on them—but to truly understand their importance one must consider Mr. Danszansky's position. Mr. Danszansky was the Director of Cabinet Affairs—in other words he had direct access to the President and the various Cabinet members involved in making decisions on the CCC program for Iraq and on the handling of the BNL scandal.

Given Mr. Danszansky's role in the CCC decision and his job as adviser to President Bush and Director of Cabinet Affairs, it is clear that President Bush was directly involved in the decision to provide Iraq with a \$1 billion in CCC credits just months before the invasion of Kuwait.

MR. SCOWCROFT, BNL, AND THE CCC

While at Kissinger Associates, Mr. Scowcroft worked on the BNL account and met on numerous occasions with

the BNL management. On three occasions between 1986 and 1989, Mr. Scowcroft briefed the BNL board on international political and economic developments. In addition, when the President of BNL traveled to the United States to attend the annual IMF conference, he met with Kissinger and Scowcroft in New York.

Just months after resigning from Kissinger Associates to join the Bush administration, Mr. Scowcroft was heavily involved in the handling of the BNL scandal including winning approval of the \$1 billion CCC program for Iraq in late 1989. Mr. Scowcroft was also directly involved in trying to win the release of the second \$500 million CCC installment for Iraq in March 1990.

NSC STAFF HEAVILY INVOLVED IN CCC DECISION

Under Mr. Scowcroft's direction, the NSC staff was heavily involved in winning approval of the \$1 billion CCC program for Iraq in late 1989 despite the implications of the BNL scandal. The NSC staff received regular briefings and memorandums from the USDA regarding the decision to grant Iraq additional credits.

The NSC was also directly involved in the decision to grant the CCC credits to Iraq. On April 2, 1990, USDA memo states:

During the fall of 1989, there was intense debate among the agencies regarding approval of Iraq's request for an FY 1990 CCC allocation of \$1 billion. The State Department and National Security Council supported a decision favorable to Iraq.

The NSC did not limit its activities to supporting the 1989 decision to grant credit to Iraq. The NSC was also directly involved in the USDA investigation of the BNL scandal.

NSC AND USDA STUDY OF BNL

In a highly unusual maneuver, the NSC had responsibility for reviewing and approving the release of the USDA administrative review of the BNL scandal and CCC program for Iraq in May 1990. The NSC staff even went as far as approving the date of the release of the USDA study.

Regarding the release of the USDA study in May 1990, Ms. Sandra Charles, the Director for Near East and South Asian Affairs at the NSC, sent a fax to the USDA's Richard Crowder, the man technically responsible for the CCC program for Iraq. Ms. Charles' handwritten notes on the memo state: "Dick, with this press release the NSC has no objection to your releasing the report. Suggest you coordinate with State [Department]."

The NSC's role in the USDA administrative review raises serious questions because the USDA review was an almost complete whitewash of the problems found during the BNL investigation. First, the scope of the USDA administrative review was severely restricted in order to downplay the importance of the BNL scandal and problems in the CCC program for Iraq.

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For example, the press release and executive summary accompanying the report give the impression that the USDA conducted an exhaustive review of the CCC program for Iraq. In fact, the vast majority of the USDA study is based on a review of the records of a single firm involved in the BNL scandal.

The most glaring example of the whitewash is related to the issue of whether or not CCC-guaranteed agricultural commodities destined for Iraq were diverted to pay for weapons. The conclusion in the USDA report is not even supported by the facts as listed in the report. The summary of the USDA report states:

The USDA administrative review uncovered no evidence to suggest that there has been diversion of commodities sold to Iraq. It appears, based on a review of sample records, that Iraq maintains records to establish proof of arrival for its CCC purchases.

In fact, a closer look at the USDA report shows that USDA investigators did not obtain records to verify that United States commodities had actually arrived in Iraq. Compare the findings of the report to an October 13, 1989, USDA memo which states:

Although additional research needs to be done, it appears more and more likely that CCC guaranteed funds and/or commodities may have been diverted from Iraq to third parties in exchange for military hardware. Where documents indicate shipments arrived in Baghdad, the timing appears improbable, shipments arrived in Baghdad prior to arriving at interim ports. McDowell and the USDA IO are concerned that commodities were bartered in Jordan and Turkey for military hardware.

Ultimately, the USDA investigators, who had numerous contacts with the NSC, took the word of the Iraqi Government that the CCC-guaranteed commodities had arrived in Iraq. In effect, the USDA report is very misleading as to the issue of whether or not CCC-guaranteed commodities were diverted—they certainly found no concrete evidence to indicate the goods actually arrived in Iraq.

Could it be that the NSC's involvement in the USDA study of BNL was meant to cover up an awareness that CCC-guaranteed commodities were being diverted to pay for Iraq weapons purchases? After all, the USDA study was deceiving as to the issue of diversion. We know that the administration conducted covert operations to assist Iraq. We also know that various memos indicate that diversion was a real possibility. And finally, the Iran-Contra affair provided proof positive that the NSC thought of itself as above the law.

Taken together, these factors raise serious questions about why the NSC was involved in the BNL investigation and whether or not they were aware of the diversion of U.S. commodities. These questions take on special importance in light of NSC Director Scowcroft's long affiliations with BNL.

Not only was the NSC staff involved in the BNL/CCC investigation under Mr. Scowcroft's direction, Mr. Scowcroft himself pushed for the release of the second \$500 million installment of CCC credits for Iraq that were delayed because of the BNL scandal.

A March 8, 1990, State Department memo related to the release of the second \$500 million CCC installment for Iraq stated: "National Security Council staff (NSC) contacted the USDA March 2 to inquire about the delay after the Iraqi Ambassador complained to General Scowcroft."

USEC ARE WORRY ABOUT DIVERSION OF COMMODITIES INVESTIGATION OR ACCESS

I revealed in a March 30 floor statement that the United States attorney in Atlanta wanted to investigate the various Iraqis involved in the BNL scandal. I also revealed that the United States attorney was never allowed to interview the Iraqis because of the potential negative effect such an investigation could have on United States-Iraq relations.

Instead, the State Department decided that the United States attorney in Atlanta would have to write letters to the various Iraqis involved in the BNL fraud and ask them written questions about their criminal activities. The committee has documents showing that the NSC and White House both received memos related to the pen-pal investigative strategy and the committee is continuing to probe their role in developing that strategy.

Mr. Scowcroft was not the only Kissinger Associates client involved in handling the BNL scandal—the Deputy Secretary of State, Lawrence Eagleburger, also played a key role.

EAGLEBURGER, SEN. AND MAG

Lawrence Eagleburger, Deputy Secretary of State, has held many positions of international influence in both the public and private sectors. Eagleburger started his political career in 1967 as a Foreign Service officer. In this capacity, he represented the United States in Honduras for 3 years, and in Yugoslavia for 4 years.

When, in 1969, Henry Kissinger became Nixon's national security adviser, Mr. Eagleburger served as his executive assistant. After working as a political adviser to NATO in Belgium, and as Deputy Assistant Secretary in the Department of Defense, Eagleburger rejoined Kissinger at the State Department, again as his executive assistant in 1973.

Eagleburger was appointed Ambassador to Yugoslavia during the Carter administration and served in that capacity from 1977 to 1981. Under President Reagan, Eagleburger became Assistant Secretary of State for European Affairs, and held this position from 1981 to 1982. Subsequently, he served for 3 years as Deputy Undersecretary for Political Affairs.

Before assuming his current position as Deputy Secretary of State in 1989, Mr. Eagleburger, like Mr. Scowcroft,

worked for Kissinger Associates, Inc. In fact, during this tenure, Mr. Eagleburger was the president of Kissinger Associates.

BNL was a client of Kissinger Associates during Mr. Eagleburger's tenure. Mr. Kissinger has stated that Mr. Eagleburger did not handle the BNL account at Kissinger Associates. Renato Quadagno, the former head of BNL's operations in the United States told committee investigators recently that Mr. Eagleburger was at a meeting between the BNL managers and Kissinger Associates in New York in 1987 or 1988.

While at the State Department, Mr. Eagleburger was fully aware of the link between BNL and the CCC program for Iraq and the importance of the BNL scandal. A State Department memo dated October 13, 1989, states: "The unfolding BNL scandal is directly involved with the Iraqi CCC program and cannot be separated from it."

Mr. Eagleburger's role in promoting United States-Iraq relations spans both his commissions at the State Department. During the early 1980's Mr. Eagleburger wrote letters promoting the use of the CCC and Eximbank as tools to provide United States financial assistance to Iraq. Starting in 1989 Deputy Secretary of State Eagleburger played a key role in winning approval of the \$1 billion CCC program for Iraq just months prior to the Iraqi invasion of Kuwait.

WINNING APPROVAL OF THE CCC PROGRAM FOR IRAQ

In order to win approval of the \$1 billion CCC program for Iraq for fiscal year 1990, Secretary Baker wrote a letter to the Secretary of Agriculture, Clayton Yeutter, and then called him personally to express his conviction that Iraq should be given the benefit of the doubt and granted the full \$1 billion CCC program for fiscal year 1990. The talking points for Mr. Baker's call to Mr. Yeutter state:

On foreign policy grounds, we support a program of up to \$1 billion, released in tranches, with periodic compliance reviews. With safeguards, I hope we can get this important program back on track quickly.

Convincing the Department of Agriculture to support the allocation of the full \$1 billion to Iraq was the least of the State Department's worries. The largest barrier was convincing the OMB and Treasury Department to drop their opposition to the \$1 billion program for Iraq. This assignment was left to Deputy Secretary of State, Lawrence Eagleburger.

The Treasury Department and OMB were opposed to the fiscal year 1990 CCC program for Iraq because of Iraq's precarious financial condition and the BNL scandal. The Treasury Department actually voted against the fiscal year 1990 program for Iraq because of creditworthiness concerns, but this did not stop Mr. Eagleburger.

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Mr. Eagleburger sent letters to the highest levels of the OMB and Treasury to win approval for the fiscal year 1990 CCC program. The first was a letter dated November 8, 1989, from Mr. Eagleburger to the Deputy Treasury Secretary, John Robson, which states:

Further to our discussion, on foreign policy grounds we support the Department of Agriculture's proposal for a full billion-dollar program of CCC export credit guarantees in FY 1990 with adequate safeguards for Iraq. . . . The CCC program is important to our efforts to improve and expand our relations with Iraq, as ordered by the President in NSC-24. With regard to the real concerns which arise from the investigation into the operations of the Atlanta branch of the Banca Nazionale del Lavoro, we have received from the Government of Iraq a pledge of cooperation.

He sent a similar letter to the OMB. Mr. Eagleburger's efforts were crucial to neutralizing OMB and Treasury opposition to the CCC program. After much lobbying and back scratching, in November 1989 the CCC program for Iraq was approved, but Mr. Eagleburger's involvement with the CCC program for Iraq and the BNL scandal did not stop.

The committee has documents showing that Mr. Eagleburger was involved in other aspects of the BNL scandal. For instance, Mr. Eagleburger provided the United States Embassy in Rome with guidance on how to handle press calls related to the BNL scandal. He also received two cables from the United States Embassy in Italy that contained interesting revelations.

The first indicated that top BNL managers approached the U.S. Ambassador to ask for damage control related to the handling of the BNL scandal in the United States. The second involved a meeting at the U.S. Embassy at which a BNL official voiced his displeasure at rumors that the Justice Department was about to indict BNL.

As a sidenote related to the Italians' request for damage control, I would like to say that United States law enforcement officials did not conduct a serious investigation of the role BNL's Rome management played in the over \$4 billion in loans to Iraq. I wonder if BNL's friends in the Bush administration had a role in the decision to exonerate BNL's management in Rome?

The most notorious Eagleburger involvement in the BNL prosecution was related to the investigation by the United States attorney in Atlanta of Iraqis involved in the BNL scandal. As I stated above and in previous floor statements sometime between the BNL raid in August 1989 and early 1990, it was decided that the Atlanta investigators would not be permitted to interview the Iraqis involved in the BNL scandal.

Instead, it was decided that the Atlanta investigators would be permitted to submit written questions to the State Department which in turn would send the questions to Iraq. This pen pal approach to the criminal in-

vestigation effectively thwarted the investigation of the Iraqis responsible for the BNL scandal and was used as an excuse to delay the rest of the BNL indictment until it was more politically correct to reveal Iraqi involvement in the scandal.

To show the State Department involvement in the BNL case, consider a March 20, 1992, New York Times article containing excerpts of an interview with Robert L. Barr, the former U.S. attorney in Atlanta who was in charge of the BNL case until April 1990. Mr. Barr acknowledged that in the BNL case considerations of foreign policy had become intertwined with those of law enforcement and that the State Department was involved in thwarting the BNL investigation. The Times quoted Mr. Barr as saying: "The State Department had become involved early on and that the case became complex both legally and because of foreign policy concerns."

To illustrate Mr. Eagleburger's role in the State Department's involvement in the pen-pal investigation of the Iraqis involved in the BNL scandal, consider a February 9, 1990, cable from Mr. Eagleburger to April Glaspie in Baghdad. The cable provides a status report on the BNL investigation and the CCC program from Iraq. In the cable, Mr. Eagleburger refers to State Department's role in handling the questions for the Iraqis involved in the BNL scandal. Mr. Eagleburger states:

. . . Legal has received a memorandum from the USDA General Counsel recommending a demarche to the Iraqis to request assurances that they will assist in the BNL investigation. If the Department of Justice (DOJ) or the Atlanta prosecutor have any specific questions they want to put to the Iraqis, we (the State Department) should convey them."

Apparently Mr. Eagleburger did not want the USDA or others back in Washington to get wind of the State Department's strategy. Later in that same memo to Ambassador Glaspie, Mr. Eagleburger states:

We have no problem with your sharing the above with the USDA attache at your discretion, but please ask that he be careful not to play it back to his colleagues here (in Washington, D.C.).

Mr. Eagleburger played a key role in winning approval of the CCC credits for Iraq and in the State Department's handling of the BNL case. Mr. Eagleburger did not recuse himself from the State Department handling of the scandal.

ALAN STOGA—KISSINGER ASSOCIATES

Another link between Kissinger Associates, BNL and Iraq is Alan Stoga. Alan Stoga is a former economist at First Chicago Bank and is currently a director of Kissinger Associates. Mr. Stoga is said to be an expert in country risk analysis and international finance. He has been interested in the Middle East for many years and has made extensive visits to the area.

Mr. Stoga worked as the chief economist of the international division at First Chicago Bank. The chairman of the First Chicago at that time was A. Robert Abboud, the chairman of the United States-Iraq Business Forum and director of First City Bank, Houston, TX.

The former head of BNL's U.S. operations stated that he attended a 1987 meeting in New York with Mr. Stoga, the head of BNL's Rome headquarters, and Mr. Kissinger, Mr. Scowcroft, Mr. Eagleburger in 1987. The meeting was held to give BNL advice on doing business in several countries including India. Mr. Stoga and Mr. Scowcroft brought the BNL officers to lunch after the meeting.

Mr. Stoga was also a friend to the United States-Iraq Business Forum. He is a friend of Mr. Robert Abboud, the former chairman of the Business Forum. On November 14, 1989 Mr. Stoga was a panelist at a Business Forum function titled, "Third Annual Symposium on U.S. Commercial Economic and Strategic Interests in Iraq. Mr. Stoga gave advice on the economic aspects of financing trade and investment with Iraq.

Just months before that meeting, in June 1989, Mr. Stoga visited Iraq with Mr. Abboud and other members of the United States-Iraq Business Forum. The Forum members met with Saddam Hussein to discuss expanding commercial relations between the United States and Iraq.

Committee investigators interviewed Mr. Stoga about his role during the June 1989 trip to Iraq. Mr. Stoga stated that he went along on the trip to get to know the country better since he had never before been to Iraq. He stated that he did not go on the trip to discuss Iraq's debt problems.

To the contrary, in a "60 Minutes" interview that aired 2 weeks ago, the president of the United States-Iraq Business Forum, Marshal Wiley, stated that Mr. Stoga was in Iraq to advise Saddam Hussein on Iraq's debt problems and the feasibility of restructuring Iraq's debts. Mr. Stoga may also have misled the public about Kissinger Associates relationship with the BCCI organization.

BCCI AFFILIATE A CLIENT OF KISSINGER ASSOCIATES

BCCI was notorious for recruiting well connected former high-level government officials around the world in order to influence government policy and to gain protection from the law. They also tried to hire Kissinger Associates in the fall of 1989, when Mr. Stoga and BCCI's representatives met several times to discuss BCCI becoming a client of Kissinger Associates.

The day after BCCI-Tampa was indicted for money laundering in October, 1990, a high-level BCCI official wrote a letter to the president of BCCI which stated:

I received a call today from Mr. Stoga, who informed me that Dr. Kissinger recom-

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sends that a public relations offensive be made by us . . . Kissinger Associates Inc. have indicated that they shall be happy to use their personal contacts with the firm and make the necessary recommendations.

In newspaper reports Mr. Stoga denied ever saying that Mr. Kissinger ever recommended a public relations offensive. He also stated that "Henry never met or talked with them (BCCI)." BCCI itself may not have become a client of Kissinger Associates, but it appears that BCCI's secretly owned affiliate, the National Bank of Georgia, which was purportedly owned by Saudi front man Ghailth Pharoan, was a client of Kissinger Associates.

In a New York Times interview Mr. Stoga is quoted as stating: "We were never employed by them (BCCI) and we are not in a habit of giving free advice."

The committee has obtained documents showing that the former president of the National Bank of Georgia, Mr. Roy Carlson, received a briefing from Mr. Kissinger. Mr. Carlson's expense report from July 1988 states, "Briefing Session Dr. Henry Kissinger."

As Mr. Stoga stated, Kissinger Associates does not give free advice. The National Bank of Georgia therefore must have been a client of Kissinger Associates. After all, Mr. Kissinger knew Ghailth Pharoan's father, an adviser to Saudi royal family, and he knew Ghailth Pharoan for many years.

This raises the question of whether or not Mr. Eagleburger or Mr. Scowcroft worked on the National Bank of Georgia account while they were at Kissinger Associates and whether or not they played any role in the postindictment prosecution of BCCI when they were back in the Government.

conclusion

BNI was a client of Mr. Scowcroft's while he was the vice-chairman of Kissinger Associates. Mr. Scowcroft regularly provided advice to BNI's management and received hefty fees in return.

Mr. Scowcroft and his staff at the National Security Council, along with the State Department, masterminded the Bush administration's handling of the BNI scandal in order to mitigate the damage it would have caused to United States-Iraq relations. In the process they trampled on United States law enforcement efforts and repeatedly misled the Congress and the American public about the United States policy toward Iraq.

BNI was not Mr. Eagleburger's client at Kissinger Associates although he did meet with BNI's management for at least one briefing. But I did show in an April 23, 1991 and February 24, 1992 floor statements that several of Mr. Eagleburger's Yugoslavian-related business ventures, the LBS Bank and the Yugo automobile, relied on BNI-Atlanta financing. Despite these lies Mr. Eagleburger did not

recuse himself from the handling of the BNI case.

These revelations are not surprising—Mr. Scowcroft and Mr. Eagleburger refused to recuse themselves from the handling of the BNI scandal even though BNI was a client of Kissinger Associates just months earlier. Their actions provide a revealing example of the ethical atmosphere at the White House and the top levels of the State Department.

As for Mr. Kissinger, he misled the public about his relationship with BNI and about his firm's contact with Saddam Hussein. Mr. Stoga misled the Banking Committee about the reasons for his trip to Iraq in the summer of 1988 when he met with Saddam Hussein to discuss Iraq's debt problems.

Their ethical behavior is just as deplorable as Mr. Scowcroft's and Mr. Eagleburger's. Is anyone really surprised?

Ministers have come under obligations to great interests; and it can be presumed or alleged that their votes or speeches have been corrupt.—W. Churchill

Articles referred to follow:

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE GENERAL COUNSEL,
Washington, DC, October 31, 1992.

Hon. STEPHEN I. DANILANSKY,
Deputy Assistant to the President and Director,
Office of Cabinet Affairs,
The White House, Washington, DC.

DEAR STEVE: Attached is a paper prepared by the Foreign Agricultural Service regarding the OGM credit guarantee program. The paper describes the process by which country credits and individual transaction guarantees are approved. It also discusses the situation with respect to the Iraqi credit.

As you know, Undersecretary Crowder is eager to resolve the new credit to be offered to Iraq quickly. Please let me know if you (or any other members of the group you assembled last week) have any questions on this, or if I can provide further information on the situation with the Banca Nazionale del Lavoro.

Best regards,

Sincerely,

ALAN CHARLES RAUL,

USDA POSITION ON IRAQ
1. BALANCING RISKS

USDA is currently evaluating its OGM-102/103 Export Credit Guarantees Program for Iraq for FY 1993. This evaluation involves prudent balancing of political and financial risks against marketing opportunities and benefits.

On the one hand, Iraq represents a very carefully nurtured \$1 billion market for U.S. agricultural exports. Failure to reach an agreement with Iraq on a OGM program for FY 1993 risks loss of that market and a number of potential spillover effects, alienation of key sectors of U.S. agriculture who have been participating in this OGM market; negative impact on the U.S. trade balance; economic hardship in several agricultural sectors; and impairment of the carefully measured political rapprochement which the United States has been developing with one of the richest and most influential Arab States.

On the other hand, Iraq's general creditworthiness appears to have deteriorated somewhat in the past several years. Although Iraq has continued to pay its U.S. debt, it has not met its payments to some other creditor nations. In addition, Iraq has

recently come under scrutiny for possible involvement in the Banca Nazionale del Lavoro (BNL) affair in Atlanta, where there has apparently been a major case of bank fraud centering on unauthorized loans to Iraq by the Atlanta branch of BNL, estimated at \$1.7 billion, while the BNL investigation is in its early stages, there have been suggestions of possible impropriety with respect to BNL's OGM loan portfolio, which is approximately \$750 million.

Investigators from the Office of the Inspector General have been detailed to work with the United States Attorney in the BNL investigation. In the course of its recent negotiations with Iraq, USDA learned that there were numerous allegations of possible wrongdoing, potentially involving Iraq. Attorneys from the Office of General Counsel were sent to Atlanta to discuss the matter with the assistant U.S. Attorney in charge of the case, to meet with the OIG personnel involved in the investigation, and to review available bank records. These attorneys report that, as of the current stage of the investigation, no hard evidence has been uncovered which indicates misuse of the OGM program or wrongdoing by Iraq. At this stage, the allegations of impropriety appear to derive from theories of possible misuse hypothesized because of evidence of apparent wrongdoing uncovered in non-OGM transactions. At this juncture, however, the evidence developed in the case appears to center largely on bank fraud, although the investigation is still at an early stage.

Under the circumstances, a prudent and measured approach must be developed. At the current time, there has been no evidence developed to support allegations that Iraq has engaged in misuse of OGM programs, and so clearly discontinuation of the Iraq program would not be warranted. At the same time, when serious allegations are being made in the BNL investigation, a "business as usual" approach seems unwise. USDA believes that the prudent approach is to offer a measured program, announcing a large enough credit line to permit Iraq to continue purchases over the near term, while making every effort to ensure that there have indeed been no program abuses. Associated with this, USDA will accelerate its own efforts to ensure future program integrity through improved management and regulation, including the development of a system of program compliance review.

DEPARTMENT OF AGRICULTURE,

OFFICE OF THE GENERAL COUNSEL,

Washington, DC, October 31, 1992.

Facsimile Transmission for: Stephen I. Danilansky, Deputy Assistant to the President and Director, Office of Cabinet Affairs.

FROM: Alan Charles Raul, General Counsel.
DEAR STEVE: Attached is a press release issued by the Iraqi Embassy in Washington in which it indicates that Iraq firmly abides by these agreements [with Banca Nazionale del Lavoro] providing letters of credit guarantees for the companies having contracts with Iraqi establishments and is desirous to honor its part of these agreements in accordance with international laws and conventions.

I thought you should be aware of this Iraqi assurance in connection with your review of the matter. Please call me if you have any questions.

STATEMENT ISSUED BY THE IRAQI EMBASSY IN
WASHINGTON, D.C.

Having heard the inaccuracies appearing in some news reports on irregularities concerning Letters of Credit issued for Iraqi firms

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April 22, 1993

by Banca Nazionale del Lavoro (BNL)—Atlanta Branch, the Embassy of Iraq issues the following statement:

In 1983 Iraq signed agreements with Banca Nazionale del Lavoro providing Letters of Credit guarantees for the commercial banking contracts with Iraqi establishments. Both contracting parties worked for the proper implementation of these agreements. Iraq, on its part, honored its obligations provided for by the agreement, i.e., prompt and exact payments.

However, the Embassy feels obliged to express astonishment at these unfounded reports including the account given by BNL officials who claimed that their Atlanta branch acted in violation of their bank policy and had no authorization to sign these agreements with Iraq.

The Embassy reiterates that Iraq is not involved in any way in the so-called Iraqi parties. The agreements between Iraq and the BNL were lawful and the facilities provided for by these agreements were used for the implementation of development projects and the import of agriculture and food products and machinery of pure civil nature under contracts with well known Italian and US firms.

The Embassy believes that these reports are untrue and entirely detrimental to the interests of Iraq and Italian and US firms.

Furthermore, any BNL reluctance to implement these agreements would cause serious damage to the Iraqi economy.

In the mean time, Iraq firmly abides by these agreements and is desirous to honor its part of these agreements in accordance with international laws and conventions. Iraq also expects the other party to do so.

DEPARTMENT OF AGRICULTURE

Washington, DC, November 2, 1988.

Memorandum for: Stephen I. Dananovsky,

Director, Office of Cabinet Affairs.

From: Alan Charles Raul.

Subject: Iraq.

NOTE: Attached are possible materials for discussion by Treasury for tomorrow's MAC meeting.

Thanks for your help on all of this and please let me know if there are any additional materials I should prepare.

DEPARTMENT OF AGRICULTURE

Office of the General Counsel.

Washington, DC, May 16, 1990.

Memorandum for: Richard T. McCormack,

Under Secretary of State; Edward S.G.

Dennis, Jr., Assistant Attorney General;

Timothy Deal, Special Assistant to the

President and Senior Director, International

Economic Affairs National Security

Council.

From: Richard T. Crowder, Under Secretary,

International Affairs and Com-

modity Programs; Alan Charles Raul,

General Counsel.

Subject: Report of Administrative Review of

Iraq OGM Program.

Attached for your review and clearance is a draft report of USDA's administrative

review of certain transactions in connection with the OGM program for Iraq. We intend

to release this document to the House and Senate Agriculture Committees, and make it

available to the public, together with an executive summary and a press release. We believe it is essential to get these facts and

conclusions out to the public as soon as possible.

In essence, after interviewing Iraqi agriculture officials and certain U.S. exporters,

and reviewing certain bank records, export records and Iraqi records, we have

concluded that certain Iraq OGM transactions improperly included freight charges within

the amounts that were registered with

USDA. In addition, the evidence suggests that a number of exporters provided Iraq with "after sales services" in possible violation of the OGM regulations.

HOUSE OF REPRESENTATIVES,
Washington, DC, August 1, 1992.

Dr. Henry Kissinger,
Kissinger Associates, Inc.,
New York, NY.

DEAR MR. KISSINGER: The Committee on Banking, Finance and Urban Affairs is investigating \$4 billion in unauthorized loans to Iraq made by the former employees of the Atlanta branch of Banca Nazionale del Lavoro (BNL). The Banking Committee would like to learn more about your personal knowledge of BNL loans to Iraq as well as that of your firm, Kissinger Associates. Accordingly, in your capacity as a former member of the BNL Consulting Board for International Policy, the Committee would appreciate your response to the following questions:

- A. Related to BNL:
 1. How long were you a director of BNL? In what capacity (i.e., political consultant, financial adviser, etc.) did you serve BNL?
 2. Is BNL a current or former client of Kissinger Associates? If yes, during what time frame?
 3. As former employees of Kissinger Associates, did Mr. Lawrence Eagleburger or Mr. Brent Scowcroft have any involvement with BNL? If yes, in what capacity?
 4. Were you or any employees of Kissinger Associates aware of the unauthorized BNL-Atlanta loans to Iraq? If yes, please explain.
 5. Did Kissinger Associates employ Mr. Alan Slope, visit Iraq in 1989 as an official of Kissinger Associates? If yes, in what capacity?
- B. Related to U.S.-Iraq commercial relations:
 1. Did Kissinger Associates ever assist its clients with any aspect of the U.S. export control process, the Export-Import Bank, or the Commodity Credit Corporation as it applied to exports to Iraq?
 2. As employees of Kissinger Associates, did Mr. Lawrence Eagleburger or Mr. Brent Scowcroft have any involvement with the export control process, the Export-Import Bank, or the Commodity Credit Corporation as it applied to commercial relations with Iraq? If yes, please explain.
 3. Was the U.S.-Iraq Business Forum (previously the U.S.-Iraq Business Roundtable) ever a client of Kissinger Associates?
 4. Were any members of the U.S.-Iraq Business Forum Kissinger Associates clients?
 5. Is First City Bancorp., Houston, Texas, or its affiliation, a current or former client of Kissinger Associates?
 6. To the best of your knowledge, have you, or has any current or former employee of Kissinger Associates ever met with Mr. Saddam Hussein or any other Iraqi government officials to discuss U.S.-Iraq commercial relations?
 7. Are any of the following current or former employees of Kissinger Associates:
 - a. U.S.-Iraq Business Forum Chairman—Robert Abourezk?
 - b. Amman Resources, Amman Jordan?
 - c. Bank of Credit and Commercial International (BOCCI)?
 - d. First American Bank of New York or its affiliates?

Thank you for time and cooperation. With best wishes,

Sincerely,

HENRY B. OGDENALE,
Chairman.

KISSINGER ASSOCIATES

New York, NY, August 24, 1992.

Mr. HENRY B. OGDENALE,
Chairman, Committee on Banking, Finance and Urban Affairs, House of Representatives Building, Washington, DC.

DEAR MR. CHAIRMAN: Your letter of August 1 raised a number of specific questions. Before responding to them, I would like to make two general points:

First, neither I nor any of my associates had any personal knowledge of loans to Iraq made by the Banca Nazionale del Lavoro (BNL) or any of its branches or subsidiaries. Second, neither I nor Kissinger Associates, Inc. (KAI) have ever done any business in Iraq; nor has KAI ever done any business with or on behalf of any Iraqi entity, government or private.

You asked twelve questions; my responses follow:

A. Related to BNL:

1. I was never a director of BNL. From 1985 to 1991, I served as a member of the bank's International Advisory Board, along with Raymond Barre (former Prime Minister of France), David Rockefeller (Chairman, Rockefeller Group), Pierre Trudeau (former Prime Minister of Canada), Lord Thorneycroft (former British Chancellor of the Exchequer and Minister of Defense), Lord Evers (former Chairman of the British National Coal Board), Roberto de Oliveira Campos (Brazilian Senator), Silvio De Cusani (former Swiss Parliamentarian), Hans Merkle (Managing Partner, Robert Bosch Industrietrichterhandlung, Barique Puentes Quintana (former Deputy President of Spain and Minister of Economic Affairs), Jean-Pierre Amory (Chairman, Petrofina S.A.), Horst Jannott (Chairman, Munchener Rohstoff-Handlungs-G.), Pierre Ledoux (Chairman, Banque National de Paris), William Takagaki (former Managing Director, Matsushita Rayon Co. Ltd.) and Ettore Lotti (Chairman, International Advisory Board, Banca Nazionale del Lavoro). The Board met once a year to discuss international economic and political developments, with each member contributing comments on current developments in his own country. It was not the function of the Board to analyze, discuss, or pass on BNL's specific business activities.

2. BNL was a general consulting client of Kissinger Associates from July 1986 to June 1988, during which time we provided the Bank's senior management with briefings on international political and economic developments. We were not involved in advising the Bank on any specific business activities and had no involvement in any BNL business with or in Iraq.

3. As Vice Chairman of Kissinger Associates, Brent Scowcroft participated in the three general consulting meetings which were held with members of the senior management of BNL between July 1986 and June 1988. These meetings dealt with international political and economic developments, not with specific business activities of the Bank. As previously reported to the Senate Foreign Relations Committee, the KAI clients with whom Lawrence Eagleburger was involved did not include BNL.

4. Neither I nor my associates had any personal knowledge of BNL's loans to Iraq, authorized or unauthorized.

5. As Managing Director of Kissinger Associates, Alan Slope visited Iraq in 1989 at the invitation of the U.S.-Iraq Business Forum to inform himself about conditions in that country.

B. Related to U.S.-Iraq commercial relations:

1. KAI represents no clients before U.S. Government agencies nor does it lobby any branch of the U.S. Government on behalf of

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clients. Therefore, Kinsinger Associates did not assist its clients with any aspect of the U.S. export control process, the Export-Import Bank, or the Commodity Credit Corporation with respect to Iraq or any other country.

2. As indicated above, neither Kinsinger Associates nor any of its employees had any involvement with these U.S. Government agencies.

3. Neither the U.S.-Iraq Business Forum nor its predecessor organization was ever a client of Kinsinger Associates.

4. I do not know which, if any, clients of Kinsinger Associates were members of the U.S.-Iraq Business Forum.

5. Neither First City Bancorp nor any of its affiliates have ever been clients of Kinsinger Associates.

6. As indicated, Mr. Stoga participated in the U.S.-Iraq Business Forum's trip to Baghdad in 1986 during which U.S.-Iraq commercial relations were discussed by the group with Saddam Hussein and other Iraqi officials. Additionally, Mr. Stoga and other employees of Kinsinger Associates met with Iraqi diplomats on social occasions. At these meetings the Iraqis often expressed their desire for improved commercial relations with the United States. However, no specific commercial projects were ever discussed. Nor, as I mentioned above, has Kinsinger Associates ever done any business in Iraq.

7. Kinsinger Associates has had no relationship with A. Robert Abboud or any of the organizations you mention.

Sincerely,

HENRY A. KINSINGER.

U.S. DEPARTMENT OF STATE,

Washington, DC, November 2, 1982.

To: The Acting Secretary.
Subject: Letter to Treasury Deputy Secretary Robinson on a CCC Program for Iraq.

In your conversation earlier today, Department of the Treasury Deputy Secretary John Robinson asked that you send him a letter outlining the policy reasons for which State strongly backed USDA's proposal for a full, billion-dollar program of Commodity Credit Corporation (CCC) credit guarantees, with safeguards, for Iraq. Attached is a letter for your signature that outlines those policy considerations. It essentially follows the talking points provided for your telephone conversation with Mr. Robinson.

Recommendation: That you sign the attached letter to Deputy Secretary Robinson.

DEPARTMENT OF STATE,

Washington, DC, November 2, 1982.

The Hon. JOHN E. ROSSON,
Deputy Secretary of the Treasury.

DEAR JOHN: Further to our discussion, on foreign policy grounds we support the Department of Agriculture's proposal for a full, billion-dollar program of Commodity Credit Corporation (CCC) credit guarantees, with safeguards, for Iraq.

In addition to the near-term benefits for agricultural sales, the CCC program is important to our efforts to improve and expand our relationship with Iraq, as ordered by the President in NSD-38. Iraq is a major power in a part of the world which is of vital importance to the United States. Our ability to influence Iraqi behavior in areas from Lebanon to the Middle East peace process to missile proliferation is enhanced by expanded trade. Also, to realize Iraq's enormous potential as a market for U.S. goods and services, we must not permit our displacement as a major trading partner.

With regard to the real concerns which arise from the investigation into the operations of the Atlanta branch of the Banco

Nacional de Lavana, we have received from the Government of Iraq a pledge of cooperation. Our intention is to hold Iraq to this commitment and to work with the Department of Agriculture to ensure that the problems with the program in the past are fully resolved in a new program. The safeguards proposed by USDA, including disbursement of the CCC guarantees in tranches, buttress the program and merit our backing.

I appreciate your support in this connection.

Sincerely,

LAWRENCE S. EAGLEBUSH,
Acting Secretary.

KINSINGER ASSOCIATES,

New York, NY, October 7, 1982.

Abol Paul Helmy,
Bank of Credit and Commerce,
New York, NY.

DEAR ABOL: I enjoyed lunch yesterday and, even more, your suggestion that BCCI might be interested in developing a relationship with Kinsinger Associates.

As you suggested, I am enclosing a brief explanation of our firm and biographical sketches of our principals. I am not sure the former really does us justice, but I am reluctant to be more specific, at least on paper, about the kinds of consulting projects we undertake for clients. The key point, of course, is that our consulting and transaction work are rooted in the firm's understanding of geopolitics and economics: a client should not ask us how to build a polyethylene plant, but should ask about what is likely to happen in the various countries where that plant might be sited.

I agree that a next step should be for me to meet your management in London or in New York. I am not scheduled to be in London (I was there two weeks ago) the rest of this year, but might be able to arrange a detour either on November 19 or November 18 (between those days I will be in Sweden, France, and Italy). Alternatively, I could fly over for a day in early December, although for expense and convenience reasons, I would prefer to tie London into another trip. Let me know your thoughts on this.

I look forward to hearing from you soon.

Best regards,

ALAN STOGA.

BANK OF CREDIT

AND COMMERCE INTERNATIONAL,

New York, October 12, 1982.

From: Abol Paul Helmy.

To: Mr. Swatch Nagel.

Further to our recent conversation in London, I met with Mr. Alan Stoga who is one of the 3 partners of Kinsinger Associates, Inc. Subsequently, the developments in the United States took place. Judging by the high level of adverse publicity that is being generated by the media, it is imperative that a firm response be made.

I received a call today from Mr. Stoga who informed me that Dr. Kinsinger recommends that a public relations offensive be made by us and in that context has suggested using Burson-Marsteller, a highly reputable public relations firm that successfully dealt with the 1st Chicago crisis last year. Kinsinger Associates, Inc. have indicated that they shall be happy to use their personal contacts with the firm and make the necessary recommendations. I shall, of course, not proceed in any way without explicit instructions from you.

While I am certain, we have our fair share of advisors and consultants, I thought it prudent to pass on the information considering the importance of its source.

Best Personal Regards.

BANK OF CREDIT

AND COMMERCE INTERNATIONAL,

New York, October 12, 1982.

From: Abol Paul Helmy.

To: Mr. Swatch Nagel.

I am enclosing for your attention the relevant details on Kinsinger Associates, Inc. as discussed.

I shall be meeting them tomorrow (October 14, 1982) to discuss further details. I shall keep you appropriately informed.

Best Regards.

BANK OF CREDIT

AND COMMERCE INTERNATIONAL,

New York, October 14, 1982.

From: Abol Paul Helmy.

To: Mr. Swatch Nagel.

I just met with Mr. Alan Stoga, Dr. Kinsinger's partner and discussed the relevant matters as per our phone conversation of yesterday.

I emphasized to Mr. Stoga that our conversation in getting on two respective occasions together have been going on for over a year and hence, have not been generated as result of the present circumstances.

I feel that a relationship could be established in the near future depending on how fast the present publicity ends.

I shall keep you duly informed of my next meeting with Dr. Kinsinger himself which should be sometime next week.

Best personal regards.

BANK OF CREDIT

AND COMMERCE INTERNATIONAL,

New York, December 18, 1982.

From: Abol Paul Helmy.

To: Mr. Swatch Nagel.

I am in communication with Mr. Alan Stoga, Partner of Kinsinger Associates, Inc. Their response was they are interested in principle but would like to wait a bit longer. I will be meeting Mr. Stoga in the first week of January, 1983 and will be discussing the issue further. It would be of interest for you to know that Mr. Scowcroft is now the National Security Adviser Designate in the Bush Administration and another Partner of Kinsinger Associates is being tapped for Assistant Secretary of State in the Bush Administration. I shall keep you informed of my next meeting. You may agree that this association with Kinsinger Associates, Inc. needs time to be cultivated. I am working in that direction.

If there are any further instructions with respect to this matter, please call prior to my January meeting.

Best Regards.

BANK OF CREDIT

AND COMMERCE INTERNATIONAL,

New York, January 11, 1983.

From: Abol Paul Helmy.

To: Mr. Swatch Nagel.

I had a lunch meeting with the gentleman on January 5, 1983 and a follow up telephone conversation on January 10, 1983. It was established that it is in our best interests for both parties to continue with the conversations. As such, the door for an eventual relationship remains open. They were far more knowledgeable of the details of our situation during this meeting and made certain "unofficial" general recommendations which I shall convey to you at our next meeting. I am meeting my contacts under partner by the end of January with a view of discussing our overall worldwide activities.

Best Regards.

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CONGRESSIONAL RECORD — HOUSE

April 28, 1992

UNITED STATES-IRAQ BUSINESS FORUM, THIRD ANNUAL SYMPOSIUM ON UNITED STATES COMMERCIAL, ECONOMIC, AND STRATEGIC INTERESTS IN IRAQ, TUESDAY, NOVEMBER 14, 1989

TOPIC: "FINANCING TRADE AND INVESTMENT WITH IRAQ"

Preliminary Program

Introductory Remarks, Marshall W. Wiley, President, United States-Iraq Business Forum.

Greetings and Commentary, His Excellency Dr. Mohamed Sadiq Al-Mashat, Ambassador of Iraq.

Panel One—"The United States and Post-War Iraq"

Sandra Charles, National Security Council Staff, The White House.

Michael H. Van Dusen, Staff Director, Subcommittees on Europe and the Middle East, House of Representatives Committee on Foreign Affairs.

Moderator: John R. Hayes, Middle East Public Affairs, Mobil Oil Corporation (Member of the U.S.-Iraq Business Forum).

Panel Two—"Economic Aspects of Financing Trade and Investment with Iraq"

Alan J. Rogge, International Economist, Kissinger Associates.

Vahan Zanyan, Oil Economist, Petroleum Finance Institute.

Moderator: Witold S. Suliminski, Servus Associates.

Panel Three—"Doing Business with Iraq"

Ray L. Hunt, Chairman of the Board, Hunt Oil Company (Member of the U.S.-Iraq Business Forum).

Donald N. DeMarino, Deputy Assistant Secretary of Commerce.

Moderator: William M. Arnold, First City Bancorporation of Texas (Member of the U.S.-Iraq Business Forum).

Luncheon Working Session

Presiding: A. Robert Abboud, Chairman of the Board and CEO, First City Bancorporation of Texas (Chairman of the Board, U.S.-Iraq Business Forum).

Address: Edward Cnehm, Deputy Assistant Secretary of State for Near Eastern and South Asian Affairs—"The Future of U.S.-Iraq Relations."

Closing Remarks

Lucus D. Battle, President, The Middle East Institute.

PARTICIPANTS

Elias Aburdene, Fairbanks Management Corporation.

James H. Andrews, M.W. Kellogg Company.

Garabed Armenian, Westinghouse Electric Corporation.

William Arnold, First City Bancorporation of Texas.

Frederick Axelgard, Center for Strategic & Internl. Studies.

Lucus D. Battle, Middle East Institute.

Erol Benjenk, Pentax International Corporation.

Randi M. Beyhum, Olaysa Development Corporation.

Carolyn Bruhn, General Motors Corporation.

Patrick A. Briggs, Bell Helicopter Textron, Inc.

David Chambers, U.S.-Iraq Business Forum.

Sandra Charles, National Security Council Staff.

Ronald C. Clegg, Bell Helicopter Textron, Inc.

George Coy, Office of Congressman Patten.

Robert R. Copaken, Department of Energy.

Lynn Coprivira, Dantzer Lumber and Export Company.

Charles Delaplane, Department of Agriculture.

Donald N. DeMarino, Department of Commerce.

Luis Echeverria, Export-Import Bank of the U.S.

Majed Elam, ARAMCO.

Bryan Estep, Luxor California Exports.

Ghaleb O. Faidi, National U.S.-Arab Chamber of Commerce.

Benedict P. FitzGerald, BDM International.

Michael Foster, Abu Dhabi International Bank.

Jay Ghazal, Office of Senator Pell.

Edward Oehm, Department of State.

Harry Griffith, Brown & Root.

John Haldane, U.S.-Iraq Business Forum.

Thomas Harrold, Olan McCulloch Sherrill & Harrold.

John R. Hayes, Mobil Oil Corporation.

John M. Howland, American Rice, Inc.

Arthur H. Hughes, Department of State.

Ray L. Hunt, Hunt Oil Company.

Evaleen Jaeger, General Motors.

Paul Jabber, Bankers Trust Company.

Les Janka, Neill and Company.

Ed Jeske, AT&T International.

K. Kachadurian, Ionics, Inc.

Riad Khayrill, AT&T Network Systems.

James King, Olan McCulloch Sherrill & Harrold.

Mary King, U.S.-Iraq Business Forum.

Michael Kostel, Texaco, Inc.

Edward Oehm, Department of State.

Alexander Lane, AT&T International.

John Lawrence, Neill and Company.

Lloyd R. Lawrence, Jr., Bob Lawrence and Associates.

William Leifeldt, General Electric Company.

Paul R. Lenach, Caterpillar, Inc.

John Leung, Continental Grain Company.

Gerald P. Lewis, AT&T Network Systems.

Peter J. Little, Boeing Commercial Airplanes.

M.J. Lyons III, American Cast Iron Pipe Company.

Phyllis Marr, National Defense University.

Terry Martin, Anodyne, Inc.

Lawrence McBride, Sneed McBride International.

Robert D. McParren, Stone & Webster Engineering Corporation.

Robert M. McGee, Occidental International Corporation.

Michael A. Miller, Occidental International Corporation.

Rick Myers, Anodyne, Inc.

Khalid Mohammed, Embassy of Iraq.

L.T. Nierth, Jr., Texaco, Inc.

Robert M. McGee, Occidental International Corporation.

Thomas Nassif, Gulf Interstate International.

William T. O'Malley, Sikorsky Aircraft, United Technologies.

Charles K. Olson, Dearborn Financial, Inc.

Riad B. Omar, Embassy of Iraq.

Clarence Orsby, Servas, Incorporated.

Kristina L. Palmer, Middle East Institute.

Ark W. Pang, Ionics, Inc.

Andrew T. Parasiliti, Middle East Institute.

John N. Parker, Mobil Corporation.

Arthur Pilzer, Export-Import Bank of the U.S.

James A. Placke, Paul, Hastings, Janofsky & Walker.

Stephen Plopper, Servas, Inc.

Suzanne Pond, Department of State.

Charles T. Prindiville, International Resources Trading Company.

All Qaragholi, Crescent Construction Company.

Yousif M. Abdul Rahman, Embassy of Iraq.

Muzhir Rasaki, Embassy of Iraq.

Burke O. Reilly, Ford Motor Company.

Philip Remler, Department of State.

John E. Rhame, General Motors Corporation.

Marc Rose, Pepsi-Cola International.

Thomas E. Rosney, BDM International.

Thomas A. Sama, Department of Commerce.

Helmut L. Stark, General Motors Overseas Corporation.

Alan J. Steg, Kissinger Associates.

Witold S. Suliminski, INTERCAP Investments, Inc.

S.A. Taubenblatt, Bechtel Group, Inc.

Michael Van Dusen, House Subcommittee on Europe and the Middle East.

Christopher Van Hollen, Middle East Institute.

Marshall Wiley, U.S.-Iraq Business Forum.

Guenther Wilhelm, Exxon Corporation.

William F. Williams, Bank of New York.

Vahan Zanyan, Petroleum Finance Institute.

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Guenther Wilhelm, Exxon Corporation.

William F. Williams, Bank of New York.

Vahan Zanyan, Petroleum Finance Institute.

Witold S. Suliminski, INTERCAP Investments, Inc.

S.A. Taubenblatt, Bechtel Group, Inc.

Michael Van Dusen, House Subcommittee on Europe and the Middle East.

Christopher Van Hollen, Middle East Institute.

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Witold S. Suliminski, INTERCAP Investments, Inc.

S



DEPARTMENT OF AGRICULTURE

OFFICE OF THE GENERAL COUNSEL
WASHINGTON, D.C. 20250

October 30, 1989

Honorable Stephen I. Danzansky
Deputy Assistant to the President
and Director, Office of Cabinet Affairs
The White House
Washington, DC 20500

By Hand

Dear Steve:

Attached is a paper prepared by the Foreign Agricultural Service regarding the GSM credit guarantee program. The paper describes the process by which country credits and individual transaction guarantees are approved. It also discusses the situation with respect to the Iraqi credit.

As you know, Undersecretary Crowder is eager to resolve the new credit to be offered to Iraq quickly. Please let me know if you (or any other members of the group you assembled last week) have any questions on this, or if I can provide further information on the situation with the Banca Nazionale del Lavoro.

Best regards.

Sincerely,

Alan Charles Raul

cc: Robert E. Grady

bcc: ✓ Richard T. Crowder, U/S, IACP
Christopher Goldthwait, FAS
Thomas V. Conway, Assoc. GC, OGC
Kevin Brosch, OGC

USDA Position on Iraq1. Balancing Risks.

USDA is currently evaluating its GSM-102/103 Export Credit Guarantee Programs for Iraq for FY 1990. This evaluation involves prudent balancing of political and financial risks against marketing opportunities and benefits.

On the one hand, Iraq represents a very carefully nurtured \$1 billion market for U.S. agricultural exports. Failure to reach an agreement with Iraq on a GSM program for FY 1990 risks loss of that market and a number of potential spillover effects: alienation of key sectors of U.S. agriculture who have been participating in this GSM market; negative impact on the U.S. trade balance; economic hardship in several agricultural sectors; and impairment of the carefully measured political rapprochement which the United States has been developing with one of the richest and most influential Arab States.

On the other hand, Iraq's general creditworthiness appears to have deteriorated somewhat in the past several years. Although Iraq has continued to pay its U.S. debt, it has not met its payments to some other creditor nations. In addition, Iraq has recently come under scrutiny for possible involvement in the Banco Nazionale del Lavoro (BNL) affair in Atlanta, where there has apparently been a major case of bank fraud centering on unauthorized loans to Iraq by the Atlanta branch of BNL, estimated at \$1.7 billion. While the BNL investigation is in its early stages, there have been suggestions of possible impropriety with respect to BNL's GSM loan portfolio, which is approximately \$750 million.

Investigators from the Office of the Inspector General have been detailed to work with the United States Attorney in the BNL investigation. In the course of its recent negotiations with Iraq, USDA learned that there were numerous allegations of possible wrongdoing, potentially involving Iraq. Attorneys from the Office of General Counsel were sent to Atlanta to discuss the matter with the assistant U.S. Attorney in charge of the case, to meet with the OIG personnel involved in the investigation, and to review available bank records. These attorneys report that, as of the current stage of the investigation, no hard evidence has yet been uncovered which indicates misuse of the GSM program or wrongdoing by Iraq. As this stage, the allegations of impropriety appear to derive from theories of possible misuse hypothesized because of evidence of apparent wrongdoing uncovered in non-CCC loan transactions. At this juncture, however, the evidence developed in the case appears to center largely on bank fraud, although the investigation is still at an early stage.

Under the circumstances, a prudent and measured approach must be developed. At the current time, there has been no evidence developed to support allegations that Iraq has engaged in misuse of GSM programs, and so clearly discontinuation of the Iraq program would not be warranted. At the same time, when serious allegations are being made in the BNL investigation, a "business as usual" approach seems unwise. USDA believes that the prudent approach is to offer a measured program, announcing a large enough credit line to permit Iraq to continue purchases over the near term, while making every effort to assure that there have indeed been no program abuses. Associated with this, USDA will accelerate its own efforts to ensure future program integrity through improved management and regulation, including the development of a system of program compliance review.



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D C
20250-1400

October 31, 1989

FACSIMILE TRANSMISSION FOR STEPHEN L. DANZANSKY

**Deputy Assistant to the President
and Director, Office of Cabinet Affairs**

FAX NUMBER:

456-7739

FROM:

**Alan Charles Raul
General Counsel**

Dear Steve,

Attached is a press release issued by the Iraqi Embassy in Washington in which it indicates that "Iraq firmly abides by these agreements [with Banca Nazionale del Lavoro providing letters of credit guarantees for the companies having contracts with Iraqi establishments] and is desirous to honor its part of these agreements in accordance with international laws and conventions."

I thought you should be aware of this Iraqi assurance in connection with your review of the matter. Please call me if you have any questions.

Alan

✓

cc: Richard T. Crowder
Undersecretary, IACP
USDA

PRESS OFFICE
Embassy of the
Republic of Iraq
 1211 Connecticut Ave. NW, Suite 600
 Washington, D.C. 20036
 (202) 615 4011



مطار:
 #معمورة العراقية
 الدائرة الصحفية
 وانظر

Statement issued by the Iraqi Embassy in Washington D.C.

Having heard the inaccuracies appeared in some news reports on irregularities concerning Letters of Credit issued for Iraqi firms by Banca Nazionale del Lavoro (BNL) - Atlanta Branch, the Embassy of Iraq issues the following statement:

In 1982 Iraq signed agreements with Banca Nazionale del Lavoro providing Letters of Credit guarantees for the companies having contracts with Iraqi establishments. Both contracting parties worked for the proper implementation of these agreements. Iraq, on its part, honored its obligations provided for by the agreement, i.e., prompt and exact payments.

However, the Embassy feels obliged to express astonishment at these unfounded reports including the account given by BNL officials who claimed that their Atlanta branch acted in violation of their bank policy and had no authorization to sign these agreements with Iraq.

The Embassy reiterates that Iraq is not involved in any way in the so-called irregularities. The agreements between Iraq and the BNL were lawful and the facilities provided for by these agreements were used for the implementation of development projects and the import of agriculture and food products and machinery of pure civil nature under contracts with well known Italian and US firms.

The Embassy believes that these reports are untrue and entirely detrimental to the interests of Iraq and Italian and US firms.

Furthermore, any BNL reluctance to implement these agreements would cause serious damage to these firms.

In the mean time, Iraq firmly abides by these agreements and is desirous to honor its part of these agreements in accordance with international laws and conventions. Iraq also expects the other party to do so.



GENERAL COUNSEL

DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

November 7, 1989

MEMORANDUM FOR STEPHEN L. DANZANSKY
DIRECTOR
OFFICE OF CABINET AFFAIRS

FROM: Alan Charles Raul

SUBJECT: Iraq

Skoe,

Attached are possible materials for circulation by
Treasury for tomorrow's NAC meeting.

Thanks for your help on all of this and please let me
know if there are any additional materials I should prepare.

Alan



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

May 16, 1990

MEMORANDUM FOR RICHARD T. MCCORMACK
UNDER SECRETARY OF STATE

EDWARD S.G. DENNIS, JR.
ASSISTANT ATTORNEY GENERAL

TIMOTHY DEAL
SPECIAL ASSISTANT
TO THE PRESIDENT AND
SENIOR DIRECTOR
INTERNATIONAL ECONOMIC AFFAIRS
NATIONAL SECURITY COUNCIL

FROM:

fr

Richard T. Crowder
Under Secretary
International Affairs and
Commodity Programs

Alan Charles Raul *ACR*
General Counsel

SUBJECT:

Report of Administrative Review of Iraq GSM
Program

Attached for your review and clearance is a draft report of USDA's administrative review of certain transactions in connection with the GSM program for Iraq. We intend to release this document to the House and Senate Agriculture Committees, and make it available to the public, together with an executive summary and a press release. We believe it is essential to get these facts and conclusions out to the public as soon as possible.

In essence, after interviewing Iraqi agriculture officials and certain U.S. exporters, and reviewing certain bank records, exporter records and Iraqi records, we have concluded that certain Iraq GSM transactions improperly included freight charges within the amounts that were registered with USDA. In addition, the evidence suggests that a number of exporters provided Iraq with "after sales services" in possible violation of the GSM regulations.

ONE HUNDRED SECOND CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

[illegible]

August 1, 1991

Dear Dr. Kissinger:

The Committee on Banking, Finance and Urban Affairs is investigating \$4 billion in unauthorized loans to Iraq made by the former employees of the Atlanta branch of Banco Nazionale del Lavoro (BNL). The Banking Committee would like to learn more about your personal knowledge of BNL loans to Iraq as well as that of your firm, Kissinger Associates. Accordingly, in your capacity as a former member of the BNL Consulting Board for International Policy, the Committee would appreciate your response to the following questions:

1. How long were you a director of BNL? In what capacity (i.e. political consultant, financial advisor, etc.) did you serve BNL?
2. Is BNL a current or former client of Kissinger Associates? If yes, during what time frame?
3. As former employees of Kissinger Associates, did Mr. Lawrence Eagleburger or Mr. Brent Scowcroft have any involvement with BNL? If yes, in what capacity?
4. Were you or any employees of Kissinger Associates aware of the unauthorized BNL-Atlanta loans to Iraq? If yes, please explain.
5. Did Kissinger Associates employee Mr. Alan Stoga, visit Iraq in 1989 as an official of Kissinger Associates? If yes, in what capacity?

B. Related to U.S.-Iraq commercial relations:

1. Did Kissinger Associates ever assist its clients with any aspect of the U.S. export control process, the Export-Import Bank, or the Commodity Credit Corporation as it applied to exports to Iraq?
2. As employees of Kissinger Associates, did Mr. Lawrence Eagleburger or Mr. Brent Scowcroft have any involvement with the export control process, the Export-Import Bank, or the Commodity Credit Corporation as it applied to commercial relations with Iraq? If yes, please explain.
3. Was the U.S.-Iraq Business Forum (previously the U.S.-Iraq Business Roundtable) ever a client of Kissinger Associates?
4. Were any members of the U.S.-Iraq Business Forum Kissinger Associates clients?
5. Is First City Bancorp., Houston, Texas, or its affiliates, a current or former client of Kissinger Associates?
6. To the best of your knowledge, have you, or has any current or former employee of Kissinger Associates ever met with Mr. Saddam Hussein or any other Iraqi government officials to discuss U.S.-Iraq commercial relations?
7. Are any of the following current or former employees of Kissinger Associates:
 - a. U.S.-Iraq Business Forum Chairman - Robert Abboud?
 - b. Amman Resources, Amman Jordan;
 - c. Bank of Credit and Commerce International (BCCI);
 - d. First American Bank of New York or its affiliates.

Thank you for time and cooperation. With best wishes.

Sincerely,

Henry B. Gonzalez
 Henry B. Gonzalez
 Chairman

HBG:dk

SEP - 3 1991

KISSINGER ASSOCIATES
350 PARK AVENUE
NEW YORK, NEW YORK 10022-6022
(212) 759-7919
TELECOPY: (212) 759-0042

SEP 3 1991

U.S. HOUSE OF REPRESENTATIVES

August 30, 1991

Dear Mr. Chairman:

Your letter of August 1 raised a number of specific questions. Before responding to those, I would like to make two general points:

- o First, neither I nor any of my associates had any personal knowledge of loans to Iraq made by the Banca Nazionale del Lavoro (BNL) or any of its branches or subsidiaries;
- o Second, neither I nor Kissinger Associates, Inc. (KAI) have ever done any business in Iraq; nor has KAI ever done any business with or on behalf of any Iraqi entity government or private.

You asked twelve questions; my responses follow:

A. Related to BNL:

1. I was never a director of BNL. From 1985 to 1991, I served as a member of the bank's International Advisory Board, along with Raymond Barre (former Prime Minister of France), David Rockefeller (Chairman, Rockefeller Group), Pierre Trudeau (former Prime Minister of Canada), Lord Thorneycroft (former British Chancellor of the Exchequer and Minister of Defense), Lord Ezra (former Chairman of the British National Coal Board), Roberto de Oliveira Campos (Brazilian Senator), Silvio De Capitani (former Swiss Parliamentarian), Hans Merkle (Managing Partner, Robert Bosch Industrietreuhand), Enrique Fuentes Quintana (former Deputy President of Spain and Minister of Economic Affairs), Jean-Pierre Amory (Chairman, Petrofina S.A.), Horst Jannott (Chairman, Munchaner Rockversicherungs-G.), Pierre Ledoux (Chairman, Banque National de Paris), William Takagaki (former Managing Director, Mitsubishi Rayon Co. Ltd.) and Ettore Lolli (Chairman, International Advisory Board, Banca Nazionale del Lavoro). The Board met once a year to discuss international economic and political developments, with each member contributing comments on current developments in his own country. It was not the function of the Board to analyze, discuss, or pass on BNL's specific business activities.

Page Two

2. BNL was a general consulting client of Kissinger Associates from July 1986 to June 1988, during which time we provided the Bank's senior management with briefings on international political and economic developments. We were not involved in advising the Bank on any specific business activities and had no involvement in any BNL business with or in Iraq.
3. As Vice Chairman of Kissinger Associates, Brent Scowcroft participated in the three general consulting meetings which were held with members of the senior management of BNL between July 1986 and June 1988. These meetings dealt with international political and economic developments, not with specific business activities of the Bank. As previously reported to the Senate Foreign Relations Committee, the KAI clients with whom Lawrence Eagleburger was involved did not include BNL.
4. Neither I nor my associates had any personal knowledge of BNL's loans to Iraq, authorized or unauthorized.
5. As Managing Director of Kissinger Associates, Alan Stoga visited Iraq in 1989 at the invitation of the U.S.-Iraq Business Forum to inform himself about conditions in that country.

B. Related to U.S.-Iraq commercial relations:

1. KAI represents no clients before U.S. Government agencies nor does it lobby any branch of the U.S. Government on behalf of clients. Therefore, Kissinger Associates did not assist its clients with any aspect of the U.S. export control process, the Export-Import Bank, or the Commodity Credit Corporation with respect to Iraq or any other country.
2. As indicated above, neither Kissinger Associates nor any of its employees had any involvement with these U.S. Government agencies.
3. Neither the U.S.-Iraq Business Forum nor its predecessor organization was ever a client of Kissinger Associates.
4. I do not know which, if any, clients of Kissinger Associates were members of the U.S.-Iraq Business Forum.

Page Three

5. Neither First City Bancorp nor any of its affiliates have ever been clients of Kissinger Associates.
6. As indicted, Mr. Stoga participated in the U.S.-Iraq Business Forum's trip to Baghdad in 1989 during which U.S.-Iraq commercial relations were discussed by the group with Saddam Hussein and other Iraqi officials. Additionally, Mr. Stoga and other employees of Kissinger Associates met with Iraqi diplomats on social occasions. At these meetings the Iraqis often expressed their desire for improved commercial relations with the United States. However, no specific commercial projects were ever discussed. Nor, as I mentioned above, has Kissinger Associates ever done any business in Iraq.
7. Kissinger Associates has had no relationship with A. Robert Abboud or any of the organizations you mention.

Sincerely,


Henry A. Kissinger

Mr. Henry B. Gonzales
Chairman
U.S. House of Representatives
Committee on Banking, Finance and Urban Affairs
One Hundred Second Congress
2129 Rayburn House Office Building
Washington, DC 20515



United States Department of State
Washington, D.C. 20520

CONFIDENTIAL

ACTION MEMORANDUM

SS 11/6

8925977A

89 NOV-68 12:00 PM



TO: The Acting Secretary

FROM:

SUBJECT: Letter to Treasury Deputy Secretary Robson
on a CCC Program for Iraq

In your conversation earlier today, Department of the Treasury Deputy Secretary John Robson asked that you send him a letter outlining the policy reasons for which State strongly backed USDA's proposal for a full, billion-dollar program of Commodity Credit Corporation (CCC) credit guarantees, with safeguards, for Iraq. Attached is a letter for your signature that outlines those policy considerations. It essentially follows the talking points provided for your telephone conversation with Mr. Robson.

Recommendation

That you sign the attached letter to Deputy Secretary Robson.

Attachment - Proposed letter to Deputy Secretary Robson

CONFIDENTIAL

8925977

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Parnell
RF:rv

'89 NOV -8 P3:54

DEPARTMENT OF STATE
WASHINGTON

November 8, 1989

CONFIDENTIAL

Dear John:

Further to our discussion, on foreign policy grounds we support the Department of Agriculture's proposal for a full, billion-dollar program of Commodity Credit Corporation GSM-102 export credit guarantees in FY 90, with adequate safeguards, for Iraq.

In addition to the near-term benefits for agricultural sales, the CCC program is important to our efforts to improve and expand our relationship with Iraq, as ordered by the President in NSD-26. Iraq is a major power in a part of the world which is of vital importance to the United States. Our ability to influence Iraqi behavior in areas from Lebanon to the Middle East peace process to missile proliferation is enhanced by expanded trade. Also, to realize Iraq's enormous potential as a market for U.S. goods and services, we must not permit our displacement as a major trading partner.

With regard to the real concerns which arise from the investigation into the operations of the Atlanta branch of the Banco Nazionale de Lavoro, we have received from the Government of Iraq a pledge of cooperation. Our intention is to hold Iraq to this commitment and to work with the Department of Agriculture to ensure that the problems with the program in the past are fully resolved in a new program. The safeguards proposed by USDA, including disbursement of the CCC guarantees in tranches, buttress the program and merit our backing.

I appreciate your support in this connection.

Sincerely,

Lawrence S. Eagleburger
Lawrence S. Eagleburger
Acting Secretary

The Honorable
John E. Robson,
Deputy Secretary of the Treasury.

CONFIDENTIAL
DECL: OADR

KISSINGER ASSOCIATES
 TWENTY-FIFTH FLOOR
 350 PARK AVENUE
 NEW YORK, NEW YORK 10022
 (212) 759-7010
 TELEX: 4970663
 TELECOPY: (212) 759-0043

October 7, 1986

Abol Fasil Helmy
 Bank of Credit and Commerce
 International
 320 Park Avenue
 New York, New York 10022

Dear Abol:

I enjoyed lunch yesterday and, even more, your suggestion that BCCI might be interested in developing a relationship with Kissinger Associates.

As you suggested, I am enclosing a brief explanation of our firm and biographical sketches of our principals. I am not sure the former really does us justice, but I am reluctant to be more specific, at least on paper, about the kinds of consulting projects we undertake for clients. The key point, of course, is that our consulting and transaction work are rooted in the firm's understanding of geopolitics and economics: a client should not ask us how to build a polyethylene plant, but should ask about what is likely to happen in the various countries where that plant might be sited.

I agree that a next step should be for me to meet your management in London or in New York. I am not scheduled to be in London (I was there two weeks ago) the rest of this year, but might be able to arrange a detour either on November 10 or November 18 (between those days I will be in Sweden, France, and Italy). Alternatively, I could fly over for a day in early December, although for expense and convenience reasons, I would prefer to tie London into another trip. Let me know your thoughts on this.

I look forward to hearing from you soon.

Best regards,


 Alan Stoga

AS/JE



280 PARK AVENUE NEW YORK NY 10022

DATE October 23, 1968

FROM: Abol Fasi Helmy

TO: Mr. Swaleh Naqvi

SUBJECT

Further to our recent conversation in London, I met with Mr. Alan Stoga who is one of the 3 partners of Kissinger Associates, Inc. Subsequently, the developments in the United States took place. Judging by the high level of adverse publicity that is being generated by the media, it is imperative that a firm response be made.

I received a call today from Mr. Stoga who informed me that Dr. Kissinger recommends that a public relations offensive be made by us and in that context has suggested using Burson-Marsteller, a highly reputable public relations firm that successfully dealt with the 1st Chicago crises last year. Kissinger Associates, Inc. have indicated that they shall be happy to use their personal contacts with the firm and make the necessary recommendations. I shall, of course, not proceed in any way without explicit instructions from you.

While I am certain, we have our fair share of advisors and consultants, I thought it prudent to pass on the information considering the importance of its source.

Best Personal Regards.

cc: Mr. Dildar M. Rizvi



380 PARK AVENUE NEW YORK NY 10022

DATE: October 13, 1988

FROM: Abdul Fadi Helay
RCC, New YorkTO: Mr. Swaleh Nassir
RCC, London

SUBJECT:

I am enclosing for your attention the relevant details on Kinstinger Associates, Inc. as discussed.

I shall be meeting them tomorrow (October 14, 1988) to discuss further details. I shall keep you appropriately informed.

Best Regards

A handwritten signature in black ink, appearing to be 'AM' followed by a long, sweeping horizontal stroke.

cc: Mr. Fikdar M. Elvi



220 PARK AVENUE NEW YORK NY 10022

DATE October 14, 1968

FROM Abol Fazi Helmy
BCC, New YorkTO Mr. Swatch Nagvi
BCC, London

SUBJECT

I just met with Mr. Alan Stags, Dr. Kissinger's partner and discussed the relevant matters as per our phone conversation of yesterday.

I emphasized to Mr. Stags that our conversations in getting our two respective organizations together have been going on for over a year and hence, have not been generated as result of the present circumstances.

I feel that a relationship could be established in the near future depending on how fast the present publicity ends.

I shall keep you duly informed of my next meeting with Dr. Kissinger himself which should be sometime next week.

Best personal regards

cc: Mr. Olivier M. Rivet



220 PARK AVENUE NEW YORK NY 10022

DATE December 19, 1969

FROM: Abdul Fazi Helmy

TO: Mr. Swaleh Naqvi

SUBJECT

I am in communication with Mr. Alan Stoga, Partner of Kissinger Associates, Inc. Their response was they are interested in principal but would like to wait a bit longer. I will be meeting Mr. Stoga in the first week of January, 1970 and will be discussing the issue further. It would be of interest for you to know that Mr. Scofield is now the National Security Advisor Designate in the Bush Administration and another Partner of Kissinger Associates is being tapped for Assistant Secretary of State in the Bush Administration. I shall keep you informed of my next meeting. You may agree that this association with Kissinger Associates, Inc. needs time to be cultivated. I am working in that direction.

If there are any further instructions with respect to this matter, please call prior to my January meeting.

Best Regards.

cc: Mr. Amour Siddiki



380 PARK AVENUE NEW YORK NY 10022

JAN 11, 1969

FROM: Abol Fazl Moiny

TO: Mr. Swales Naqvi

SUBJECT

I had a lunch meeting with the gentleman on January 5, 1969 and a follow up telephone conversation on January 10, 1969. It was established that it is in our best interests for both parties to continue with the conversations. As such, the door for an eventual relationship remains open.

They were far more knowledgeable of the details of our situation during this meeting and made certain "unofficial" verbal recommendations which I shall convey to you at our next meeting. I am meeting my contact's senior partner by the end of January with a view of discussing our overall worldwide activities.

Best Regards.

89AP3

UNITED STATES-IRAQ
BUSINESS FORUM

Third Annual Symposium on U.S. Commercial,
Economic, and Strategic Interests in Iraq

Sponsored by the
United States-Iraq Business Forum
and
The Middle East Institute

TUESDAY, NOVEMBER 14, 1989
THE GRAND HOTEL
Room 5, Conference Level
2350 M Street, N.W.
Washington, D.C.

Topic:
"Financing Trade and Investment with Iraq"

Preliminary Program

8:45 A.M. Introductory Remarks
Marshall W. Wiley, President
United States-Iraq Business Forum

9:00 A.M. Greetings and Commentary
His Excellency Dr. Mohamed Sadiq Al-Mashat
Ambassador of Iraq

9:15-10:15 A.M. Panel One

"The United States and Post-War Iraq"

Sandra Charles, National Security Council Staff
The White House

Michael H. Van Dusen, Staff Director,
Subcommittee on Europe and the Middle East,
House of Representatives Committee
on Foreign Affairs

MODERATOR: John R. Hayes
Middle East Public Affairs, Mobil Oil Corporation
(Member of the U.S.-Iraq Business Forum)

10:15-11:15 A.M.

Panel Two

**"Economic Aspects of Financing Trade
and Investment with Iraq"**

Alan J. Stoga, International Economist,
Kissinger Associates

Vahan Zanoian, Oil Economist,
Petroleum Finance Institute

MODERATOR: Witold S. Suliminski,
Servus Associates

11:15-12:15 A.M.

Panel Three

"Doing Business with Iraq"

Ray L. Hunt, Chairman of the Board,
Hunt Oil Company (Member of the U.S.-Iraq
Business Forum)

Donald N. DeMarino, Deputy Assistant
Secretary of Commerce

MODERATOR: William M. Arnold,
First City Bancorporation of Texas
(Member of the U.S.-Iraq Business Forum)

12:15

Beverages at the Open Bar and Telephone Break

1:00 P.M.

Luncheon Working Session

Presiding: A. Robert Abboud, Chairman of the Board
and CEO, First City Bancorporation of Texas
(Chairman of the Board, U.S.-Iraq Business Forum)

Address: Edward Gnehm, Deputy Assistant Secretary of State
for Near Eastern and South Asian Affairs

"The Future of U.S. - Iraqi Relations"

2:45-P.M.

Closing Remarks

Lucius D. Battle, President
The Middle East Institute

89 AP3

The U.S.-Iraq Business Forum
and
The Middle East Institute

Third Annual Symposium

THE GRAND HOTEL
TUESDAY, NOVEMBER 14, 1989
Washington, D.C.

Participants

Elias Aburdene	Fairbanks Management Corporation
James H. Andrews	M.W. Kellogg Company
Garabed Arzenian	Westinghouse Electric Corporation
William Arnold	First City Bancorporation, Texas
Frederick Arelgard	Center for Strategic & Interntl. Studies
Lucius D. Battle	Middle East Institute
Erol Benjenk	Pentex International Corporation
Hani M. Beyhum	Olayan Development Corporation
Carolyn Brehm	General Motors Corporation
Patrick A. Briggs	Bell Helicopter Textron, Inc.
David Chambers	U.S.-Iraq Business Forum
Sandra Charles	National Security Council Staff
Ronald C. Clegg	Bell Helicopter Textron, Inc.
George Cody	Office of Congressman Feighan
Robert R. Copaken	Department of Energy
Lynn Copriviza	Dantzler Lumber and Export Company
Charles Delaplane	Department of Agriculture
Donald W. DeMarino	Department of Commerce
Luis Echeverria	Export-Import Bank of the U.S.
Hajed Elass	ARAMCO

Bryan Estep
 Ghaleb O. Faidi
 Benedict F. Fitzgerald
 Michael Foster
 Jay Ghazal
 Edward Gnehm
 Harry Griffith
 John Haldane
 Thomas Harrold
 John R. Hayes
 John M. Howland
 Arthur H. Hughes
 Ray L. Hunt
 Eileen Jaeger
 Paul Jabber
 Les Janka
 Ed Jesteadt
 K. Kachadurian
 Riad Khayali
 James King
 Mary King
 Michael Kostiv
 Diane Lander
 Alexander Lang
 John Lawrence
 Lloyd R. Lawrence, Jr.

Luxor California Exports
 National U.S.-Arab Chamber of Commerce
 BDM International
 Abu Dhabi International Bank
 Office of Senator Fell
 Department of State
 Brown & Root
 U.S.-Iraq Business Forum
 Glan McCulloch Sherrill & Harrold
 Mobil Oil Corporation
 American Rice, Inc.
 Department of State
 Hunt Oil Company
 General Motors
 Bankers Trust Company
 Neill and Company
 AT&T International
 Ionics, Inc.
 AT&T Network Systems
 Glan McCulloch Sherrill & Harrold
 U.S.-Iraq Business Forum
 Texaco, Inc.
 AT&T Network Systems
 AT&T International
 Neill and Company
 Bob Lawrence and Associates

William Lehfelt
 Paul M. Lenzsch
 John Lesting
 Gerald P. Lewis
 Peter J. Little
 M.J. Lyons III
 Phebe Marr
 Terry Martin
 Lawrence McBride
 Robert D. McFarren
 Robert M. McGee
 Michael A. Miller
 Rick Myers
 Khalid Mohammed
 L.T. Nierth, Jr.
 Robert M. McGee
 Thomas Nassif
 William T. O'Malley
 Charles E. Olson
 Read S. Omar
 Clarence Ormsby
 Kristina L. Palmer
 Ark W. Pang
 Andrew T. Parasiliti
 John N. Parker
 Arthur Pilser

General Electric Company
 Caterpillar, Inc.
 Continental Grain Company
 AT&T Network Systems
 Boeing Commercial Airplanes
 American Cast Iron Pipe Company
 National Defense University
 Anodyne, Inc.
 Sneed McBride International
 Stone & Webster Engineering Corporation
 Occidental International Corporation
 Occidental International Corporation
 Anodyne, Inc.
 Embassy of Iraq
 Texaco, Inc.
 Occidental International Corporation
 Gulf Interstate International
 Sikorsky Aircraft, United Technologies
 Dearborn Financial, Inc.
 Embassy of Iraq
 Servaes, Incorporated
 Middle East Institute
 Ionics, Inc.
 Middle East Institute
 Mobil Corporation
 Export-Import Bank of the U.S.

James A. Placke
 Stephen Flopper
 Suzanne Pond
 Charles T. Prindeville
 Ali Qaragholi
 Yousif M. Abdul Rahman
 Mushir Pazoki
 Burke G. Reilly
 Philip Renler
 John E. Rhame
 Marc Rose
 Thomas E. Rowney
 Thomas A. Sams
 Helmut E. Stark
 Alan J. Stoga
 Witold S. Suliminski
 S.A. Taubenblatt
 Michael Van Dusen

 Christopher Van Hullen
 Marshall Wiley
 Guenther Wilhelm
 William F. Williams
 Vahan Znoyan

Paul, Hastings, Janofsky & Walker
 SerVaas, Inc.
 Department of State
 International Resources Trading Company
 Crescent Construction Company
 Embassy of Iraq
 Embassy of Iraq
 Ford Motor Company
 Department of State
 General Motors Corporation
 Pepsi-Cola International
 BDM International
 Department of Commerce
 General Motors Overseas Corporation
 Kissinger Associates
 INTERCAP Investments, Inc.
 Bechtel Group, Inc.
 House Subcommittee on Europe and
 the Middle East
 Middle East Institute
 U.S.-Iraq Business Forum
 Exxon Corporation
 Bank of New York
 Petroleum Finance Institute

Special Order - July 9, 1992

Scowcroft Improperly Intervened in CCC Program and Many More Lies to Congress

- Scowcroft Improperly Intervenes in USDA Administrative Review
- Scowcroft Gets Visit from Iraqi Ambassador
- Conspiracy to Defraud
- Scowcroft-Yeutter Axis
- Press Release Misleads
- Strategy to Deceive Originated at State Department
- No Public Announcement of Suspension and Lies to Congress
- Crowder Avoids Issue of NSC Intervention
- Conclusion

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diminished Soviet threat, the ratio drops only one additional point to 59:41. Given that the total annual Federal R&D investment is well over \$70 billion, small percentage shifts from defense to civilian R&D have the potential to yield large returns in technological investment. Reversing the current 60:40 defense: civilian ratio to a 50:50 ratio would reallocate a total of \$14 billion from defense R&D to civilian R&D programs.

In short, we can afford the SSC, if we consider it to be a crucial part of a long-term strategy to redress some very disturbing investment trends in the United States. If these trends are allowed to proceed unchecked, they cannot fail to eat away at our standing in a world which will be increasingly dominated by science and technology.

CONCLUSION

Madam Speaker, I would like to close this special order with a few words on the problems that we in the Congress face in dealing with big science—projects like the SSC, fusion reactors, and the space station that are increasingly controversial because of their size, their expense, and the multiyear commitment necessary to bring them to fruition. Big science facilities are not big because of pork-barrel considerations. They are large because shared, complex facilities have become essential to scientific progress in a whole range of disciplines, including astronomy, oceanography, computing, and biology, as well as physics.

If we expect to continue to be world leaders, we can not expect to revolutionize science by watching apples fall from a tree. We will need an appropriate balance of small and big science. It is mindless to oppose all big science projects simply because they are big. In doing so, we virtually guarantee that many fundamental breakthroughs in our understanding of nature will not occur in the United States. By rejecting all big science, we demonstrate that we are unable or unwilling to play the role of the steady, scientific leader in a new world order where security will be based as much on economic and technological strength as on military weaponry.

I know that in the face of huge budget deficits, it is not easy to support a program whose benefits are as uncertain and long-term as the SSC's will be. But ultimately, even if we lose our will, the scientific promise of the SSC will prove to be so intriguing that the work will be done, albeit on other shores. And when that happens, we will send the signal that we knew what a great society should do, but we lacked the will to get it done. This would be a message to the youth of America—and to the world at large—that we are a nation in decline.

□ 2110

THE SPEAKER pro tempore. Under a previous order of the House, the gentleman from Georgia [Mr. GINORICH] is

recognized for 30 minutes.

[Mr. GINORICH addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

THE SPEAKER pro tempore. Under a previous order of the House, the gentleman from New York [Mr. LaFALCE] is recognized for 30 minutes.

[Mr. LaFALCE addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

SCOWCROFT IMPROPERLY INTERVENED IN CCC PROGRAM AND MANY MORE LIES TO CONGRESS

THE SPEAKER pro tempore. Under a previous order of the House, the gentleman from Texas [Mr. GONZALEZ] is recognized for 30 minutes.

Mr. GONZALEZ. Mr. Speaker, earlier today my colleagues at the Judiciary Committee called upon the Attorney General to seek the appointment of an independent counsel to investigate the conduct of officials and private parties involved in the Iraqi affair. There are just reasons for this, and I will provide new details today.

I will provide new information showing that the White House improperly intervened in the Agriculture Department's operation of the Commodity Credit Corporation (CCC) in order to appease Saddam Hussein. In the process they violated their own policy of not using food as a political weapon. I will also discuss new evidence that several high-ranking Bush administration officials have repeatedly misled the Congress and U.S. farmers about the suspension of the CCC Program.

SCOWCROFT IMPROPERLY INTERVENED IN USDA ADMINISTRATIVE REVIEW

In previous statements I have revealed a great deal about the November 8, 1990, National Advisory Council decision to approve the \$1 billion CCC Program for Iraq that year. I showed that the White House, National Security Council, and the State Department used their power to win approval for the full billion dollar program for Iraq despite serious concerns by the Treasury Department, the Office of Management and Budget, and the Federal Reserve that Iraq probably could not repay the credits and that the program was rife with corruption as evidenced by the BNL scandal.

Today I will show that White House and State Department intervention in the operation of the CCC Program for Iraq did not end in 1990. In fact, their intervention escalated as 1990 unfolded. As an example, in April 1990 the State Department told the USDA not to publicly announce that Iraq had broken numerous CCC regulations. At the time the USDA acquiesced, but they again pressed for a public announcement of the suspension in May 1990. May 1990 is just a few months before August 2, 1990, when Iraq invaded Kuwait.

On May 8, 1990, the White House itself intervened to stop the public announcement. Brent Scowcroft, the President's top National Security Advisor, asked USDA Secretary Clayton Yeutter to hold off on announcing the suspension of the program. Yeutter went along with the scheme to mislead the public and on May 21, 1990, a press release issued by the USDA did not mention that the program was suspended. There never was a public announcement of the suspension.

It is clear that the White House and the State Department were running the CCC Program for Iraq. They did eventually agree to suspend the program in late May 1990, but they kept the suspension a secret from both the Congress and everyone else. I can now shed light on those events and show that the White House's heavy hand overrode sound management principles for political reasons. The White House's actions were anything but "prudent," as President Bush is trying to insist now.

SCOWCROFT GETS VISIT FROM IRAQI AMBASSADOR

Mr. Brent Scowcroft was heavily involved in the decision to approve the \$1 billion CCC Program for Iraq, and he was also involved in the manipulation of that program until Iraq invaded Kuwait in August 1990. His staff at the NSC had frequent contact with the staff of the USDA team investigating the BNL scandal. When it was necessary, Mr. Scowcroft himself intervened to win his way with the USDA. Indeed, he was a key decisionmaker in the CCC Program, which is illustrative of how foreign policy dominated the foreign credit program.

To illustrate these points let me quote from a March 4, 1990, State Department memorandum.

National Security Council Staff contacted USDA March 2 to inquire about the delay [in the CCC Program] after the Iraqi Ambassador complained to General Scowcroft. Iraq needs the second tranche now. USDA's present delay in releasing the second tranche damages the interests of U.S. producers that sell to Iraq as well as our political relationship with that important country. . . . It appears that it will take a high-level NSC decision to move USDA any more quickly.

Pressed for action by Iraq, and anxious to mollify Saddam Hussein, Scowcroft and the State Department hatched a plan to use the CCC Program as a political weapon against the increasingly belligerent Iraq. The President and Mr. Scowcroft now have to answer to the public as to why they allowed Iraq to utilize the first \$500 million installments of CCC credits prior to suspending the program.

CONSPIRACY TO DEFEAT

As the memo I just read from indicates, by March 1990 the USDA had serious doubts about going forward with the second \$500 million tranche of CCC credits for Iraq, but the White House and State Department were opposed to suspending the program because they were using the program in an effort to

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medity, or mollify Iraq and Saddam Hussein.

□ 2130

The USDA's Under Secretary, Richard Crowder, was responsible for the CCO Program. He apparently believed that the CCO regulations required the program for Iraq to be suspended, as indicated by an April 8, 1990, USDA memorandum, which reports:

Dick Crowder and I met with Under Secretary McCormack (a State Department official) late yesterday afternoon. We advised State of our plans and they more or less concurred, but would ask that we not use the term "suspend" regarding Iraq's [CCO] program. Instead we can talk in the press release about the existence of any further guarantees awaiting resolution and additional information regarding the pending questions.

A USDA-prepared draft press release dated April 1990 states:

Under Secretary Richard T. Crowder announced today that the Department's fiscal year 1990 CCO program for Iraq would be suspended after the \$300 million line of export guarantees, announced in November 1989 is exhausted. . . . USDA review of the Iraq program has raised a number of questions regarding conduct of the program, and USDA has therefore notified Iraq of its intention, at the current time, to suspend the program for fiscal year 1990 at the current \$300 million level.

In fact, Crowder went as far as telling several Capitol Hill staffers that the CCO Program was suspended. Notes from a May 17, 1990, briefing of Senate Agriculture Committee staffers state:

We have enough evidence to suspend program . . . Crowder will not recommend further CCO credits until OIG (Office of Inspector General) and criminal investigations are completed. USDA is not going forward with the second \$300 million.

The assertion that the USDA had enough evidence to suspend the program is supported by a May 7, 1990, letter from Mr. Crowder to the USDA Inspector General regarding after-sales services, which is a fancy word for kickbacks:

According to Iraqi officials, this practice occurred primarily in conjunction with sales of wood products, but we understand after-sales services have been a common strategy of many Iraqi state enterprises. Iraq identified several U.S. exporters in the wood products industry that provided after-sales services . . .

To summarize the situation in April/May 1990 the USDA wanted to shut down the Iraq program because of numerous program violations. The USDA had concerns about the diversion of U.S. commodities for weapons for military purposes. The USDA had proof that it was Iraqi Government practice to solicit bribes, and the USDA found evidence of overpricing of commodities to include freight charges in violation of program regulations.

In addition, the U.S. attorney in Atlanta had found numerous violations of the laws related to the CCO Program and Iraq and the U.S. attorney in Raleigh, NC, found eight ENL financed tobacco companies had improperly in-

cluded foreign source tobacco shipments to Iraq and that three had paid bribes to Iraqi officials to win contracts with Iraq.

In other words the CCO Program for Iraq was rife with corruption, Iraq had violated numerous CCO Program regulations, and there was concern that Iraq had diverted commodities to pay for weapons. It is clear that the USDA had plenty of evidence to shut down the program. Despite that evidence, Brent Scowcroft and Clayton Yeutter stopped Mr. Crowder from suspending the CCO Program and then conspired to keep that information secret.

SCOWCROFT-YEUTTER AXIS

Notes from a Treasury Department conversation with the National Security Council on May 17, 1990, state that the USDA sent a 33-page report to the Justice Department, State Department, and the National Security Council. The notes state: "Agriculture planning to shut program down." The notes go on to say that the USDA will release the news after the commodities markets close on Friday, May 18, 1990.

Armed with its recently completed administrative review, which clearly showed problems in the CCO Program, the USDA was ready to shut it down on May 18, 1990, but Mr. Scowcroft intervened to stop that action. Notes from a Treasury Department conversation with the National Security Council dated May 18, 1990, are astonishing. The notes state:

Scowcroft called Yeutter and asked him not to put out press release today saying "terminating program." Not to do that until we have an interagency review. Agriculture may still put out report since it doesn't have any policy recommendations.

Let me repeat that: "Scowcroft called Yeutter and asked him not to put out press release to day saying program terminated."

The Treasury Department's notes are supported by Commerce Department notes from a Rostow Gang meeting held in June 1991. The Rostow Gang participants that day were discussing the various information that they were going to deny to the Congress, and we are trying to figure out how they could do that. The notes of the meeting reveal the existence of a May 18, 1990, letter from Scowcroft to the Department of Agriculture.

The notes indicate that the President was going to protect that letter. In other words the President would claim Executive privilege on the Scowcroft-Yeutter letter. The Banking Committee has made numerous requests for information to the USDA. I have signed many a letter. The Scowcroft letter was never turned over to the committee, and I have written Agriculture Secretary Madigan asking him to explain that oversight.

PRESS RELEASE MISLEADS

Apparently Clayton Yeutter does not like to disappoint his superiors. On May 21, 1990, the USDA issued its administrative review. The press release accompanying the review did not men-

tion that the program was suspended. Obviously Mr. Yeutter complied with Scowcroft's request to say nothing. It would be interesting to know if Scowcroft was acting on his own or the request was cleared by the President himself. The President should answer that question.

On the same day the U.S. Ambassador to Iraq, April Glaspie, sent a secret cable to Mr. Scowcroft which expressed alarm about reports that the CCO Program would be cut off. She pointedly stated:

Word has reached the Embassy here in Baghdad—but not the Government of Iraq—that Agriculture has decided to turn down the second tranche of CCO credits for Iraq. . . . from a foreign policy perspective the decision is difficult to justify. My own thinking is that unless Agriculture has uncovered a legal hornet's nest, we will want to proceed with the second tranche of credits. It remains unclear why we would want to see food as a weapon.

Referring to the planned suspension, Ambassador Glaspie protested that a cut-off would undermine efforts to convince Saddam Hussein that the United States really wanted to work with him:

Turning down the CCO credits would send the signal that the administration has decided to join those in Congress who had already reached the conclusion that the U.S. had no option but to pursue a policy of sanctions and containment. A sudden shift now will be read by the Iraqis as purely political—part of the U.S. conspiracy against Iraq.

What the cable shows is that the CCO Program for Iraq was first and foremost a foreign policy tool and that Glaspie did not want the program suspended because she feared it would send Iraq the wrong signal. Her superiors obviously and evidently agreed.

Mr. Crowder went along with the decision to say nothing about the suspension which meant that American farmers, the commodities markets and the public had to be deceived. There is some evidence that indicates that Crowder may not have like the idea. In a memorandum to Brent Scowcroft on May 21, 1990 Crowder states:

Notwithstanding the above considerations, additional CCO credit guarantees to Iraq should not be made over and above the \$300 million already authorized in fiscal 1990 until the question concerning program irregularities with sales to Iraq are cleared up. . . . It cannot overemphasized that any constraint on CCO credit guarantees must not be based on foreign policy considerations.

□ 2130

But it appears Mr. Scowcroft, with April Glaspie's advice in hand, had different plans. Treasury Department talking points for a May 29, 1990, NSC meeting on Iraq state:

Meeting has been initiated by NSC staff because they want to prevent the CCO Credit Program from being canceled as it would exacerbate the already strained foreign policy relations with Iraq.

Agriculture had planned to put out a press release on May 21 that said the program was being suspended until the

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investigations into improprieties in the program were completed.

The NSC prevailed on Agriculture to say only that their investigation showed that improprieties may have occurred and remain silent on a suspension.

In fact, there is a suspension in effect. Agriculture has already briefed Congress on this prospect.

We believe that further CCC programming for Iraq should be suspended if USDA believes it is warranted under its own statutes.

The NSC Deputies Committee meeting was held on May 28, 1990, to discuss potential strategies for dealing with Iraq. In preparation for that meeting the State Department formulated a list of policy options that could potentially be used as a tool to modify Iraq's actions. Regarding the CCC Program the paper states:

CCC Program: This is the largest program we currently have with Iraq. All the sanctions legislation on the Hill, aside from Inouye-Kasten, exempts CCC. PRO: Since Iraq's record of repayment on CCC-guaranteed loans is good and USDA's review will probably give Iraq a thirty percent bill of health, suspension of CCC at this point would be a strong political statement. CON: It would violate our policy against using food as a political weapon and hit some U.S. agricultural exporters hard. It might also lead Iraq to default on CCC-insured loans. Other countries would sell these commodities to Iraq.

Apparently, at the conclusion of the meeting, it was decided that the second \$500 million installment would not be released. It was a too little, too late effort to get tough on Saddam Hussein. Iraq had already utilized \$400 million of the first tranche and the taxpayers got stuck with the tab for that mistake.

For the White House and State Department the decision to suspend the program on May 28, 1990, meant that the Bush administration violated its own policy against using food as a political weapon. This amounted to Orwellian DoubleSpeak since food was used for precisely political purposes—namely to entice Saddam Hussein into becoming a respectable world citizen, or at least a facsimile of one.

What disturbs me today is the hypocrisy and arrogant attitude of the administration. They repeatedly tell the Congress and the public that they don't engage in such primitive practices as using food as a political weapon. As an example look at an April 18, State Department letter commenting on Congressman BENJAMIN's Iraq sanctions bill introduced in early 1989. The letter very primly says:

It has been the strong and repeated position of the Administration not to use food as an economic weapon of foreign policy through the imposition of embargoes on agricultural exports, or otherwise to place limits on our export programs for political reasons.

The USDA chimed in on the effort to deceive about the foreign policy nature of the CCC Program when on April 18,

1990, the USDA's General Counsel, Alan Raul was quoted as stating:

Raul is loath to release the NSC record. That's internal document and doesn't want to see link to foreign policy . . . released publicly.

Lies like these are used so often I sometimes wonder if the White House, State, and Agriculture Departments actually believe that it is true. The evidence surely does not support their sycophantic public statements.

STRATEGY TO DECEIVE ORIGINATED AT STATE DEPARTMENT

The strategy to deceive the public about the suspension of the CCC Program appears to have been spawned in the State Department by Mr. Jock Corry. An April 1990 State Department memorandum from Corry to State Department Under Secretary Robert Kimmitt states:

Given the Administration's policy that food will not be a political weapon, we may not be in a position to make a formal announcement that there will be no second tranche of CCC credits this year. We can in fact place the program under prolonged review, resulting in the same end. The troops will get the message as will agricultural exporters and farm state Congressmen.

This strategy to mislead the public about the use of the CCC program and the lies that accompany the strategy are downright shameless. Lies like these hurt real people. One cost of the suspension is that the Bush administration had to mislead farmers, the commodity markets, particularly for rice, the Congress and the public about its real policy toward Iraq.

NO PUBLIC ANNOUNCEMENT OF SUSPENSION AND LIES TO CONGRESS

The decision to keep secret the decision to suspend the program led to many more lies. The USDA had to deceive U.S. farmers, Members of the Congress, and the public. The Banking Committee has numerous letters which the USDA wrote to Congressmen between April 1990 and August 1990, and none of the letters mention that the CCC Program for Iraq was suspended.

For example:

May 4, 1990, USDA to Senator HOWELL REFLD;

May 21, 1990, USDA to Senator LYNN BENTEN;

May 24, 1990, USDA letter to House Judiciary Chairman JACK BROOKS and Congressman MIKE ANDREWS of Texas;

June 15, 1990, USDA letter to Senator TRENT LOTT; and

July 6, 1990, USDA letter to Senator RICHARD SHELLEY.

These Members all had hard working farmers in their districts that were concerned about losing the sales of agricultural commodities to Iraq. They had plans to make and resources to reallocate if there was not going to be sale to Iraq. In other words they had to run their businesses. The administration must be required to answer why they misled U.S. farmers and their representatives in Congress.

CHOWDER AVOIDS HEFT OF NSC INTERVENTION

In recent testimony before the Banking Committee Mr. Crowder purposely failed to answer the committee's questions about NSC and White House involvement in the handling of the CCC Program for Iraq. In a letter of invitation of May 21, 1992, the committee asked Mr. Crowder to answer for his written statement the following questions:

Question No. 2: How did foreign policy considerations affect the USDA's position related to the consideration of the fiscal year 1990 CCC Program for Iraq?

Question No. 3: How did Iraq's human rights record affect the USDA's position related to the consideration of the fiscal year 1990 CCC programs for Iraq?

Question No. 4: Please explain the National Security Council's role in the USDA's administrative review of the BNL scandal?

Question No. 7: Please explain the White House's and National Security Council's role in USDA decision making process related to the fiscal year 1990 CCC Program for Iraq?

Close scrutiny of Mr. Crowder's testimony reveals that he failed to address any of these questions in his written submission to the committee. In fact Mr. Crowder misled the committee about the administrative review and when he testified on May 21, 1992, he stated:

I instructed the team to prepare a report and we met again on May 1, 1991. At that meeting, I determined that I would make a public announcement disclosing the results of the administrative review and my determination not to proceed on any further credit guarantees in connection with sales to Iraq until conclusion of the BNL investigation. Our proposed report and announcement was provided to the U.S. Attorney in Atlanta and to USDA's Office of Inspector General and was circulated within the administration to other interested agencies. The final report was released on May 28, 1990.

All true statements, but thoroughly misleading. I maintain that the reason Mr. Crowder so conveniently failed to address the questions posed and the reason he conspired to mislead the committee is that he was protecting Mr. Yeutter, Mr. Scowcroft, and the State Department from embarrassment related to their obviously political manipulation of the CCC Program for Iraq. In short, he lied to cover up for his superiors.

As I have revealed in previous statements Mr. Crowder repeatedly misled the Congress about the foreign policy nature of the CCC Program for Iraq and about the pressure he was receiving from the State Department. There is more to say about this deception, and I will provide more details as time permits.

CONCLUSION

I must restate the President's recent comments about the CCC program for Iraq. While addressing an agricultural group the President stated:

I think we properly used these (CCC) credits for what they were designed to do, and I

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which it's been beneficial to American agriculture and I'm going to continue to use them in a way that's beneficial to American agriculture with the national interest of the United States foremost in my mind. So I can't say it's been perfect, but I do think that the Department and I hope the White House has done a good job in the implementation of the law and the using of those credits.

Could it be that the President is misinformed about the White House's manipulation of the CCC Program? I doubt it. After all the President's top national security adviser, Brent Scowcroft, was intimately involved in making decisions related to the CCC Program for Iraq.

On Tuesday I showed how Mr. Scowcroft led the charge to deny Iraq-related information to the Congress. It is now becoming increasingly clear that Mr. Scowcroft was the key figure in the manipulation of the CCC Program for Iraq. It is hard to imagine that Mr. Scowcroft did not also have a role in White House calls to the assistant U.S. attorney in Atlanta or the Justice Department's handling of the BNL scandal.

Linking Mr. Scowcroft so firmly to the CCC Program and the BNL scandal raises the question of President Bush's knowledge of Mr. Scowcroft's activities. It is hard to believe that the President was not aware of his top national security adviser's activities. It is hard to believe that the President was unaware that the CCC Program was being used as a political weapon in violation of the President's own policy.

In my March 16 floor statement I showed that USDA and State Department officials repeatedly lied to the Congress about the use of the CCC Program for Iraq. They came before Congress and said that the CCC Program for Iraq was not used as a foreign policy tool and that the State Department was not pressuring the USDA to go ahead with the program despite concerns of Iraqi wrongdoing. Both the USDA and State Department were aware that they were misleading the public about the CCC Program.

As I mentioned at the outset, the Judiciary Committee announced today that it would recommend to the Attorney General that a special prosecutor be appointed to investigate the high-level Bush administration wrongdoing involving Iraq. I commend Chairman Smoots and the rest of the committee for having the courage to take such a step.

It has become an all too common practice of the highest level of the Bush administration to lie to the Congress and the American public about its domestic performance in running our Federal Government. The very fabric of our democratic system is torn when people in positions of authority, from the cop on the street to the President of the United States, determine that the best course of action is deception. Regarding Saddam Hussein, President Bush, and his top advisers chose the

course of deception instead of owning up to their policy failures.

I think the appointment of an independent counsel is important to remind all those in power that choosing the path of deception will result in investigation, and if warranted, prosecution. Our democratic society needs such checks and balances and the citizens of our Nation deserve the truth—even if it is politically painful.

There is more to say about all this, and I pledge to continue these reports as time allows and circumstances require.

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE JUDICIARY,
Washington, DC, July 9, 1992.

Hon. WILLIAM P. BAHR,
Attorney General, Department of Justice, Washington, DC.

DEAR MR. ATTORNEY GENERAL: Pursuant to the Ethics in Government Act, 28 USC § 592j, we, the undersigned, constituting a majority of the majority Members of the House Committee on the Judiciary, write to formally request that you, as Attorney General, seek appointment of an Independent Counsel to investigate serious allegations of possible violations of Federal criminal statutes by high-ranking officials of the Executive Branch. The potential criminal conduct in question relates to activities by both present and former officials to illegally assist the regime of Saddam Hussein prior to the August 1990 invasion of Kuwait, and to attempt to conceal information about potential criminal activity from Congress through the making of false statements, the nonproduction, falsification or alteration of official records and other documents, and through otherwise misleading and obstructing Congress in its investigation of such matters.

As you are well aware, this Committee—as well as at least four other Committees in both the House and Senate—has endeavored to examine the allegations described above through hearings, requests for production of documents, and requests for answers to questions proposed in writing. As a result of these congressional oversight efforts, as well as other information which has now entered the public domain, it appears that there may have been violations by persons in the White House and in various departments of the Executive Branch of government of provisions of the United States Code, including but not limited to: 18 USC § 371 (conspiracy to defraud the United States or commit an offense against the United States); 18 USC § 1001 (making a false statement); 18 USC § 1505 (obstruction of justice); 18 USC § 207 (concealment or falsification of records); 18 USC § 1621 (perjury); 18 USC § 1341 (mail fraud); 18 USC § 1343 (wire fraud); and 18 USC § 207 (financial conflict of interest by high Executive Branch officials).

Obviously, the Legislative Branch is not constitutionally empowered to either prosecute wrongdoing or adjudicate illegality. For this reason, the enumerated list of potential criminal violations cannot be considered exhaustive, and certainly is not restrictive of the ultimate jurisdictional mandate of an Independent Counsel. Moreover, as the statute provides, the Independent Counsel should be charged with investigating and prosecuting all persons involved in criminal activities under § 591(a)-(c). Such persons would include at least all White House and other Executive Branch officials compensated at levels specified in subsection (b) of § 591 as well as other officials the investigation of which by the Department would present a conflict of interest within the meaning of subsection (c).

It should be noted that the growing impatience for this request is itself the result of the willful and repeated failure of the Executive Branch to comply with this and other Committees' requests for both documents and witnesses needed to shed light on the lines of inquiry clearly raised by Congressional investigations extending back to 1988.

The failure of the Executive Branch to produce witnesses from the White House and National Security Council, the refusal of the Executive Branch to produce numerous requested documents from at least four agencies, and the failure of the Executive Branch to reconcile on-the-record contradictory assertions made by different Executive Branch officials before various Committees, have only reinforced our view that the Judiciary Committee needs to request an Independent Counsel with full subpoena and prosecutorial authority. In this regard, the contradictory Administration testimony is particularly troubling in the areas of the alteration of official records, the "formalized" procedures for screening or rebuffing Congressional requests for information, the possible diversion of government-financed loan proceeds for military purchases, and the apparent misuse of third country arms transfers to Iraq.

Finally, allegations of irregularities in the Department's handling of a host of investigations touching upon U.S. policy to Iraq must be considered carefully from the standpoint of the Ethics in Government Act. Of most obvious concern is the Department's actions in the Banco Nacional del Lavoro ("BNL") litigation—including the scope and timing of the indictment finally brought, the circumstances surrounding the appointment and removal of the U.S. Attorney in the district in which the matter was handled, the possible political interference of high Executive Branch officials with the line attorneys handling the case, the possible delay or withholding of classified information from the Atlanta prosecutors, and the sudden and unexpected plea bargaining arrangement by the Department reached with defendant Paul Dragonetti—an arrangement which the presiding Federal district judge severely and publicly criticized as mysterious and unseemly, and in his view, warranting the appointment of an Independent Counsel. Because the Ethics in Government Act presently contains a mechanism by which to avoid a situation where a Departmental investigation might result in a "personal, financial, or political conflict of interest" for the Attorney General or any officer of the Department of Justice (28 USC § 5919(c)), we concur in this recommendation. And as you are further aware, this subsection would also apply to any possible criminal violation of persons in or outside of government who are not high-level Executive Branch officials as defined in subsection (b).

Despite your understandable and deserved pride in the generally high professional standards of the Department's personnel, both at Main Justice and in the field, the overriding need to reassure the American public that justice has, in fact, been done in the handling of this case would appear to militate strongly against the Department investigating its own handling of this most controversial matter in addition to the other allegations discussed above.

We know of your abiding and sworn commitment to uphold the law of the United States. In the circumstances presented, we sincerely believe that the law as well as the

July 9, 1992

public trust would best be served by the appointment of an Independent Counsel.

Sincerely,

Jack Brooks, Chairman, Charles E. Schomer, Dan Glickman, Patricia Schroeder, Marley O. Staggers, Jr., Edward F. Feighan, Bill Hughes, John Bryant, Peter Hoagland, Craig A. Washington, Don Edwards, Romano L. Mazzoli, Howard L. Berman, George E. Brown, Barney Frank, Mike Synar, John Conyers, Jr., Mel Levine, Jack Reed, Mike Kopetski.

COMMERCE DEPARTMENT NOTES FROM RECTOR OASIS MEETING

Rector & Rademaker.

It has gone down that made cuts list. MSDO 211. NSO will send letter to Pascoli. MSB 17.

Walt to Cheney 6/1/92.

Securcraft to Dept. May 15, 1989.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE GENERAL COUNSEL,
Washington, DC, June 1, 1989.

Memorandum for the Secretary.
From: Alan Charles Raul, General Counsel.

Subject: End of Week Report.
Re Iraq. I received a further briefing this week from the Department of Justice regarding the Atlanta investigation into the Banco Nacional del Lavoro and related matters. I briefed the Deputy Secretary on certain new issues in the investigation.

There was an NSO "Deputies Committee" meeting on the Iraq OSM program this week. I thought I should attend that meeting, but the Deputy Secretary determined that Ann Veneman should attend and that I should not. I have not been briefed any on the meeting yet, but I understand that it was decided that no additional guarantees beyond the first \$500 million would be provided to Iraq this year. The decision apparently turned on the various investigations that my office has been monitoring closely. Last night, the NSC's Special Assistant to the President for Asian Affairs, Richard Naam, mentioned to me that there was supposed to be a cable sent to Iraq this week informing them of the decision.

END OF WEEK REPORT, JUNE 1, 1989

THE UNDER SECRETARY OF AGRICULTURE FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS,
Washington, DC, May 22, 1989.

(Secret)

Memorandum for: The Honorable Brent Scowcroft, Assistant to the President for National Security Affairs.

From: Richard T. Crowder, Under Secretary.
Subject: USDA's Position on Options in NSO Deputies Committee Review of COO Paper on Iraq(S).

The options paper properly characterizes the impact of sanctioning Iraq with respect to COO export credit guarantees. Iraq is an important market for over twenty U.S. agricultural commodities sold under the credit guarantees of the OSM-MS program. However, it cannot be overemphasized that any constraint on COO credit guarantees must not be based on a foreign policy rationale.

Notwithstanding the above considerations, additional OSM-MS and OSM-MS credit guarantees to Iraq should not be made over and above the \$500 million already authorized in fiscal 1989 until the questions concerning program irregularities with sales to Iraq are cleared up.

USDA wants to sell as many agricultural commodities abroad as possible, including to Iraq, but integrity of the program supersedes the desire to sell at any cost.

IRAQ—TALKING POINTS FOR MAY 29 ORAL BRIEFING FOR NSO MEETING

Meeting has been initiated by NSC staff because they want to prevent the COO credit program from being cancelled as it would exacerbate the already strained foreign policy relations with Iraq.

Agriculture had planned to put out a press release on May 21 that said the program was being suspended until the investigations into irregularities in the program were completed.

The NSC prevailed on Agriculture to say only that their investigation showed that irregularities may have occurred and remained silent on a suspension.

In fact, there is a suspension in effect. Agriculture has already briefed congress on this prospect, and the press has reported on the investigation.

We believe that further COO programing for IRAQ should be suspended if USDA believes it is warranted under its own statutes.

The likelihood that Iraq will stop paying on the COO credits may depend on whether Assad feels that there is the possibility of new credits under the program at a later date.

If Iraq does stop paying there will be a budget cost as USDA starts paying off claims of the banks whose credits were insured.

Iraq may want to renegotiate its repayments, but will only do so under a bilateral agreement, while the U.S. will only go through the Paris club.

Source: Treasury Department.

DEPARTMENT OF AGRICULTURE

OFFICE OF THE GENERAL COUNSEL

Washington, DC, April 4, 1989.

Memorandum for: Kevin Brooch.

From: Alan Charles Raul, General Counsel.

Subject: Iraq.

Dick Crowder and I met with Under Secretary McCormack on late yesterday afternoon (Wednesday). We advised them of our plans and they more or less concurred, but would ask that we not use the term "suspend" regarding Iraq's OSM program. Instead, we can talk in the press release about the extension of any further guarantees awaiting resolution and additional information regarding the pending questions.

Also, you will be excited to learn that the State Department strongly recommends that we go to Baghdad to ask relevant questions. They believe it will have certain diplomatic benefits, as well as provide better access to the necessary Iraqi officials and documents.

I will be in Seattle on Thursday and Friday, but I would like to be kept apprised of any developments on the Iraq front. I will call in periodically but Kathy will also know how to reach me and how to fix things to me, if necessary.

When the "Qs and As" are done, please get a copy to me somehow.

Thanks.

PRESS RELEASE

APRIL 1, 1989.—Under Secretary Richard T. Crowder announced today that the Department's Fiscal Year 1989 OSM-MS program for Iraq would be suspended after the \$500 million line of export credit guarantees, announced in November, 1988, is exhausted. The OSM-MS program for Iraq had been operating, during each of the two prior fiscal years, at a level of approximately \$1 billion annually.

The Department launched its own administrative review of the Iraq OSM-MS program late last summer after allegations of leading irregularities involving Iraq surfaced in an investigation by the Office of the United States Attorney for the Northern District of Georgia of the Atlanta agency of Banco

Nacional del Lavoro (BNL). The BNL investigation has allegedly uncovered more than \$1 billion in unauthorized loans to Iraq made by the Atlanta branch of BNL. At the time of the Atlanta investigation began, approximately \$750 million of that amount were loans to pay for agricultural purchases made under the OSM-MS program.

Various Federal agencies, including USDA, have been cooperating with the U.S. Attorney in that investigation which has recently involved issues of banking irregularities. In addition, USDA has conducted its own inquiry into past transactions in connection with the Iraq OSM program. That inquiry has raised a number of questions regarding contract pricing, purchasing practices, shipment, requests for additional services and imposition of special taxes and fees.

USDA has raised its concerns about these issues with representatives of the Government of Iraq, including Iraq's Ambassador to the United States. USDA expects to work with the Government of Iraq, which has indicated its willingness to cooperate and provide information about issues of banking irregularities.

Under the OSM-MS program, the Commodity Credit Corporation (CCC), a Federal corporation within the Department of Agriculture, assists agricultural exporters by providing guarantees which encourage private financing of export sales of agricultural sales for which repayment is made primarily by the foreign purchaser.

Under the OSM-MS program, the CCC has been a default in payment. In the case of Iraq, no claims have ever been made on the COO as a result of guaranteed sales to Iraq. The Iraq OSM program began in 1982, and has expanded since that time. Currently, CCC has outstanding guarantees on approximately \$1.3 billion worth of sales made over the past three years.

Any leading irregularities that may have occurred at BNL do not affect the risk undertaken by the COO in insuring the guarantees, because the risk undertaken relates to repayment by the foreign purchaser. Under the OSM program, CCC assumes no risk with respect to the bank in the United States financing the sale. Nonetheless, USDA review of the Iraq program has raised a number of questions regarding conduct of the program, and USDA has, therefore, notified Iraq of its intention, at the current time, to suspend the program for FY 1989 at the current \$500 million level.

Source: Department of Agriculture.

COMMITTEE ON BANKING,

FINANCE AND URBAN AFFAIRS,

Washington, DC, April 26, 1989.

Mr. RICHARD T. CROWDER, Under Secretary, International Affairs and Commodity Programs, Department of Agriculture, Washington, DC.

DEAR MR. CROWDER: The Committee on Banking, Finance and Urban Affairs will hold a hearing on the National Advisory Council on International Monetary and Financial Policy (NAIC) and its role in approving the \$1 billion FY 1989 U.S. Department of Agriculture (USDA) Commodity Credit Corporation (CCC) program for Iraq.

The Committee respectfully requests that you testify at this hearing on May 21, 1989, at 2:30 a.m. in Room 228, Rayburn House Office Building. The Committee would like you to address the following questions in your written testimony:

1. Please explain the USDA's role in the NAIC process.
2. How did foreign policy considerations affect the USDA's position related to the consideration of the FY 1989 COO program for Iraq?
3. How did creditworthiness concerns affect the USDA's position related to the con-

H 6242

CONGRESSIONAL RECORD—HOUSE

July 9, 1992

alteration of the FY 1993 CCC program for Iraq?

6. How did Iraq's human rights record affect the USDA's position related to the consideration of the FY 1993 CCC program for Iraq?

7. What influence did the Banca Nazionale del Lavoro (BNL) scandal have on the USDA's position related to the consideration of the \$1 billion FY 1993 CCC program for Iraq?

8. Please explain the National Security Council's (NSC) role in the USDA's Administrative Review of the BNL scandal.

9. Please explain the White House's and NSC's role in the USDA's decision making process related to the FY 1993 CCC program for Iraq.

Please feel free to submit any further comments that you may have on the above topics. Banking Committee rules require your written testimony to be made available to Members of the Committee twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 3125 Rayburn House Office Building by 5:30 a.m. May 21, 1992.

Thank you for your consideration of this request. The Committee looks forward to your testimony.

With best wishes,

Sincerely,

HERBERT R. CONZALEX,
Chairman.

DEPARTMENT OF STATE,
Washington, DC, April 16, 1992.

Mrs. RICHARD DARMAR,
Director, Office of Management and Budget.
DEAR MA. DARMAR: This letter forwards the State Department's views on the Berman bill imposing sanctions on Iraq, as you requested.

The bill imposes open-ended sanctions against Iraq without linking them to any policy objective. Thus it would eliminate any Presidential flexibility in dealing with an important but difficult country, without specifically furthering any U.S. national interests.

The President has made clear concern at the recent Iraqi attempts to smuggle capacity—with possible use in nuclear weapons—out of the U.S. He has made clear his outrage at the irresponsible threats issued by Iraq's President Saddam Hussein. There have always been significant U.S. concerns about Iraqi behavior, and in fact the U.S. Government has long imposed many of the measures the legislation would mandate. The State Department generally prohibits the sale or transfer of U.S. Munitions List items to Iraq. Fifty chemicals identified as potentially usable in chemical weapons programs are prohibited for export to Iraq. Items on the Commodity Control List deemed likely to aid Iraq's nuclear, missile, or other proliferation programs are denied.

Of the other sanctions envisioned by the bill, we note that Iraq is one of the largest markets for U.S. agricultural exports. The primary objective of our agriculture credit programs with Iraq has been to increase sales of U.S. farm products abroad. This OSN program, which has run about \$1 billion annually in recent years, provides credit guarantees to U.S. exporters of agricultural commodities. It has been the strong and repeated position of the Administration not to use food as an economic weapon of foreign policy through the imposition of embargoes on agricultural exports, or otherwise to place limits on our export programs for political purposes.

The short-term U.S. Export-Import Bank credit insurance is intended to promote the export of U.S. industrial goods. On January 17 President Bush signed a waiver to the FY

92 Foreign Operations Appropriations Act to enable this program to continue on national interest grounds.

Regarding U.S. votes in International Financial Institutions such as the IMF, which seeks to support a stable, market-oriented economy, the United States has traditionally tried to avoid politicization of the IMF, which would undermine the Fund's technical and monetary character. By basing IMF actions on political criteria, the United States would create a precedent others would inevitably try to exploit in ways inimical to U.S. interests. For example, important U.S. allies such as Israel could be subject to similar efforts by other countries. Such politicization would divert the IMF's attention from pressing needs in the international economic system, including debt strategy and restructuring of Eastern Europe. In addition, it is the opinion of the Department of Justice that legislation mandating U.S. votes in International Financial Institutions would be unconstitutional.

The State Department opposes the virtually total economic embargo of Iraq which would result from this bill. The President needs flexibility in dealing with Iraq on such important issues as the Arab-Israeli Peace Process, in which Iraq has the capability to play a positive—or negative—role. The Administration maintains an active review of our policy towards Iraq with a view towards assessing how best to further our interests in this thorny bilateral relationship. The Administration's approach to Iraq has been to deal firmly with problems as they arise within the context of broad, many-faceted relations. Imposition of rigid, legislated sanctions will not support vital U.S. interests in the region, and might well undercut important U.S. objectives.

Experience has shown sanctions are most effective when imposed multilaterally. At this point our allies are not contemplating sanctions against Iraq. Any sanctions imposed would therefore be symbolic only, with the costs borne by the United States.

For the above reasons, the State Department opposes the Berman bill.

Sincerely,

JANET G. MULLINS,
Assistant Secretary,
Legislative Affairs.

Madam Speaker, I yield to the gentleman from North Carolina [Mr. ROSE].

Mr. ROSE. Madam Speaker, I thank the gentleman for yielding.

I would like to compliment our friend, the gentleman from Texas [Mr. CONZALEX] for the great work he has done in this very important area and to tell him how very much I have enjoyed working with him to the end that we have achieved. I know there will be many other opportunities in the future for us to work together on similar projects such as this.

But I want to pay the gentleman from Texas the compliment of saying that because of his chairmanship and his abilities with this very difficult issue, what we worked on, what I worked on, what my committee members worked on many years ago, it has been paid attention. And I want to thank him for putting his reputation and his expertise to work to bring this whole question of aid to Iraq, the CCC's involvement and the documents that he has provided for us which have made many things possible. I will forever be

in his debt for this great piece of work that he has done.

Mr. CONZALEX. I thank the chairman very much. Let the record show clearly that Chairman ROSE has been in the forefront in this matter as the chairman of the Subcommittee on Department Operations, Research, and Foreign Agriculture of the Committee on Agriculture, the subcommittee of pertinent jurisdiction, and has been in fact indispensable in aligning himself with our efforts from the Committee on Banking, Finance and Urban Affairs' standpoint, and I think the record ought to clearly show that.

I also want to say that I have provided with my presentation a copy of the documentation I have referred to, plus a copy of the letter of the Committee on the Judiciary that was sent today under Chairman BARNES's signature to the Attorney General.

Madam Speaker, I thank the Speaker for her patience.

The SPEAKER pro tempore (Mrs. BYRON). Under a previous order of the House, the gentleman from California [Mr. RIGGS] is recognized for 60 minutes.

[Mr. RIGGS addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

LEAVE OF ABSENCE

By unanimous consent, leave of absence was granted to:

Mr. HYDE (at the request of Mr. MICHEL), from 4:30 p.m. today, on account of family medical reasons.

Mr. JOHNSON of Texas (at the request of Mr. MICHEL), from 12:30 p.m. today, on account of knee surgery.

SPECIAL ORDERS GRANTED

By unanimous consent, permission to address the House, following the legislative program and any special orders heretofore entered; was granted to:

(The following Members (at the request of Mr. COGS) to revise and extend their remarks and include extraneous material:)

Mr. DOOLITTLE, for 5 minutes, today.
Mr. WALKER, for 5 minutes, today.

Mrs. BENTLEY, for 60 minutes, today.
(The following Members (at the request of Mr. CONZALEX) to revise and extend their remarks and include extraneous material:)

Mr. TAYLOR of Mississippi, for 5 minutes, today.

Mr. FOLEY, for 5 minutes, today.
Mr. ROYER, for 5 minutes, today.
Mr. MCCLOSKEY, for 5 minutes, today.
Mr. ANNUZZO, for 5 minutes, today.
Mr. PANTTA, for 5 minutes, today.
Ms. FALOUT, for 5 minutes, today.

EXTENSION OF REMARKS

By unanimous consent, permission to revise and extend remarks was granted to:

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 BOB BROWDER CALIFORNIA
 JOHN CANNON AL. MEMBERS
 ROBERT L. MATHIAS ARIZONA
 WILLIAM J. HUGHES NEW JERSEY
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ONE HUNDRED SECOND CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON THE JUDICIARY

2138 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-8219

July 9, 1992

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 JIM HENNINGSEN ARIZONA
 GEORGE ALLEN ARIZONA

TELEPHONE: 205-200-1
 TELETYPE: 205-200-2

The Honorable William P. Barr
 Attorney General
 U.S. Department of Justice
 Washington, D.C. 20530

Dear Mr. Attorney General:

Pursuant to the Ethics in Government Act, 28 USC § 592(g), we, the undersigned, constituting a majority of the majority Members of the House Committee on the Judiciary, write to formally request that you, as Attorney General, seek appointment of an Independent Counsel to investigate serious allegations of possible violations of Federal criminal statutes by high-ranking officials of the Executive Branch. The potential criminal conduct in question relates to activities by both current and former officials to illegally assist the regime of Saddam Hussein prior to the August 1990 invasion of Kuwait, and to attempt to conceal information about potential criminal activity from Congress through the making of false statements, the nonproduction, falsification or alteration of official records and other documents, and through otherwise misleading and obstructing Congress in its investigation of such matters.

As you are well aware, this Committee -- as well as at least four other Committees in both the House and Senate -- has endeavored to examine the allegations described above through hearings, requests for production of documents, and requests for answers to questions propounded in writing. As a result of these congressional oversight efforts, as well as other information which has now entered the public domain, it appears that there may have been violations by persons in the White House and in various departments of the Executive Branch of government of provisions of the United States Code, including but not limited to: 18 USC § 371 (conspiracy to defraud the United States or commit an offense against the United States); 18 USC § 1001 (making a false statement); 18 USC § 1505 (obstruction of justice); 18 USC § 2071 (concealment or falsification of records); 18 USC § 1621 (perjury); 18 USC § 1341 (mail fraud); 18 USC § 1343 (wire fraud); and 18 USC § 207 (financial conflict-of-interest by high Executive Branch officials).

Obviously, the Legislative Branch is not constitutionally empowered to either prosecute wrongdoing or adjudicate illegality. For this reason, the enumerated list of potential criminal violations cannot be considered exhaustive, and certainly is not restrictive of the ultimate jurisdictional mandate of an Independent Counsel. Moreover, as the statute provides, the Independent Counsel should be charged with investigating and prosecuting all persons involved in criminal activities under § 591(a)-(c). Such persons would include at least all White House and other Executive Branch officials

The Honorable William P. Barr
 July 9, 1992
 Page 2

compensated at levels specified in subsection (b) of § 591 as well as other officials the investigation of which by the Department would present a conflict of interest within the meaning of subsection (c).

It should be noted that the growing imperative for this request is itself the result of the willful and repeated failure of the Executive Branch to comply with this and other Committees' requests for both documents and witnesses needed to shed light on the lines of inquiry clearly raised by Congressional investigations extending back to 1986. The failure of the Executive Branch to produce witnesses from the White House and National Security Council, the refusal of the Executive Branch to produce numerous requested documents from at least four agencies, and the failure of the Executive Branch to reconcile on-the-record contradictory assertions made by different Executive Branch officials before various Committees, have only reinforced our view that the Judiciary Committee needs to request an Independent Counsel with full subpoena and prosecutorial authority. In this regard, the contradictory Administration testimony is particularly troubling in the areas of the alteration of official records, the "formalized" procedures for screening or rebuffing Congressional requests for information, the possible diversion of government-financed loan proceeds for military purchases, and the apparent misuse of third country arms transfers to Iraq.


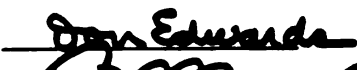






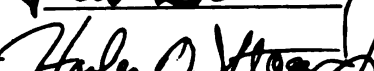
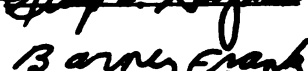




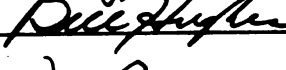

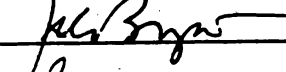
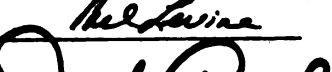
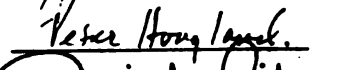

Finally, allegations of irregularities in the Department's handling of a host of investigations touching upon U.S. policy to Iraq must be considered carefully from the standpoint of the Ethics in Government Act. Of most obvious concern is the Department's actions in the Banca Nazionale del Lavoro ("BNL") litigation -- including the scope and timing of the indictment finally brought, the circumstances surrounding the appointment and recusal of the U.S. Attorney in the district in which the matter was handled, the possible political interference of high Executive Branch officials with the line attorneys handling the case, the possible delay or withholding of classified information from the Atlanta prosecutors, and the sudden and unexpected plea bargaining arrangement by the Department reached with defendant Paul Drogoul -- an arrangement which the presiding Federal district judge severely and publicly criticized as mysterious and unseemly, and in his view, warranting the appointment of an Independent Counsel. Because the Ethics in Government Act prudently contains a mechanism by which to avoid a situation where a Departmental investigation might result in a "personal, financial, or political conflict of interest" for the Attorney General or any officer of the Department of Justice (28 USC § 591(c)), we concur in this recommendation. And as you are further aware, this subsection would also apply to any possible criminal violation of persons in or outside of government who are not high-level Executive Branch officials as defined in subsection (b).

Despite your understandable and deserved pride in the generally high professional standards of the Department's personnel, both at Main Justice and in the field, the overriding need to reassure the American public that justice has, in fact, been done in the handling of this case would appear to militate strongly against the Department investigating its own handling of this most controversial matter in addition to the other allegations discussed above.

The Honorable William P. Barr
 July 9, 1992
 Page 3

We know of your abiding and sworn commitment to uphold the law of the United States. In the circumstances presented, we sincerely believe that the law as well as the public trust would best be served by the appointment of an Independent Counsel.

Sincerely,

 John Brooks, Chairman	
	
	
	
	
	
	
	
	
	

Questions from Rep. Schumer
to Deputy Secretary
Eagleburger.

May 21, 1992
Pg. 152, Lns 3654-3657
thru pg 153-3689-3693

Q: Mr. SCHUMER: But I would like to know what in the Congressional Record that Chairman Gonzales disclosed has compromised our security in any way? I would like to know specifics.

A: Mr. EAGLEBURGER: On reflection, I continue to believe that it is inappropriate to go one-by-one through documents that have been leaked to determine after the fact what national security interests have been violated. I certainly could not do so in a public forum. The fact of the matter is that a procedure exists for any member of Congress to follow in seeking to declassify documents. It is an intolerable situation if each of 535 members of Congress plus thousands of Congressional staffers can be the judge as to whether documents are worthy of being declassified and placed into the Congressional Record.

Questions from Rep. Sanders
to Deputy Secretary Eagleburger.

House Banking: 5/21/92
page 233, line 5639

Mr. SANDERS. I have heard, and this is speculation, tell me if I am wrong or not, that in one way or the other, through laundering or however, they ended up in that war with billions of dollars in money they didn't have when it started.

Mr. EAGLEBURGER. We understand that in connection with Syria's role in the international coalition against Saddam Hussein, a number of Gulf countries, including Saudi Arabia, Kuwait, and the U.A.E., pledged financial assistance to Syria. Roughly half of this assistance was in the form of grant aid and half in economic project aid. While Syria has received most of the pledged grant aid, we understand that most of the project assistance has not yet been disbursed. As a result of the Gulf War, Syria also received commitments of bilateral aid, primarily project assistance, from several European countries and Japan. Gulf-War related pledges to Syria total several billion dollars. The United States did not pledge or provide any assistance to Syria.

Date of Hearing: May 21, 1992
Page 235, Lns. 5672-5689

QUESTION SUBMITTED BY REPRESENTATIVE SANDERS

SAUDI ARABIA'S TRANSFER OF ARMS TO IRAQ

REPRESENTATIVE SANDERS: Are you aware of any third-country transfer of U.S. military equipment to Iraq beside the 1986 Saudi Arabia transfer brought out in a recent Los Angeles Times article?

MR EAGLEBURGER: I am not aware of any transfer of U.S. origin military equipment from Saudi Arabia to Iraq other than the item reported in the Congressional notification sent to Congress in August, 1986.

QUESTION TO MR. ROBSON FROM REP. SLATTERY

QUESTION:

Mr. Slattery: Mr. Robson, one last question. If you could provide me and the committee with a list of the banks in this country that had loans outstanding to Iraq during this period of time, that would be helpful. Could you provide, the Treasury Department provide that information?

ANSWER:

It is not possible to provide a list for the entire period based on data from Treasury's regular reporting systems for international portfolio investment. This information is collected under the International Investment and Trade in Services Survey Act (22 U.S.C. 3103) which prohibits release of information on individual reporters.

However, on August 5, 1990, Treasury requested information on the assets and liabilities of large international firms vis a vis Iraq as of August 2, 1990. This special survey was carried out under the authority of Section 203 of the International Emergency Economic Powers Act (50 U.S.C. 1702) and Executive Orders 12722 and 12733 of August 2, 1990. Information in this survey should provide a reasonable guide to bank positions during the period preceding Iraq's invasion of Kuwait.

In the August 5 survey the following banks, including the domestic or foreign offices of U.S.-based banks and the U.S. affiliates of foreign-based banks, had banking claims on residents of Iraq. Unless otherwise noted, reports were made by banks' New York offices.

Banca Nazionale Del Lavoro (Atlanta)
Bank of America
The Bank of New York
Chase Manhattan Bank, NA
Chemical
Citibank
Continental Bank Corp (Chicago)
First City, Texas (Houston)
First National Bank of Boston (Boston)
Gulf International Bank BSC
JP Morgan
Manufacturers Hanover
National Bank of Kuwait
UBAF Arab American Bank

These reported claims were those of the banks themselves and in some instances represented only deposits in Iraq banks. They do not include holdings of long-term securities nor custody claims belonging to customers.

Treasury/Office of Data Management
November 18, 1992



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

Honorable Henry B. Gonzales
Chairman
Committee on Banking, Finance
and Urban Affairs
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

RECEIVED

April 1 1992

APR 3 1992

Committee on Banking, Finance
& Urban Affairs

Dear Henry:

Thank you for your recent letter in which you request information relating to claims received by the Commodity Credit Corporation (CCC) from U.S. banks for amounts which Iraq, through Rafidain Bank, has failed to pay in connection with purchases of agricultural commodities with respect to which export credit guarantees were issued by CCC.

We previously provided to Mr. Kane of your committee staff a list of all files maintained by the Department of Agriculture (USDA) relative to these claims and all files relating to Banca Nazionale del Lavoro (BNL). On several occasions Mr. Kane met with USDA personnel to review various files. In addition, we have provided copies of specific documents and files requested by your committee and Mr. Kane as a result of his review.

Enclosed you will find a single table which summarizes the data requested in items 1, 2, 3, and 4 on claims filed and paid, including the specific data relating to BNL.

In reference to your request for "any and all additional documents the Department of Agriculture has that are relevant to this matter," the Office of Controller of CCC maintains these files, of which there are more than 366,000 pages. If there are any particular materials you are interested in, please advise us so we may determine how best to proceed.

You are correct in your understanding that USDA's Office of the General Counsel has been reviewing and consulting on legal issues regarding claims filed by BNL under the CCC export credit guarantees. No final analysis or decision is available at this point.

Thank you for your interest in this matter.

Sincerely,

Edward Madigan
Secretary

Enclosure

STATUS OF IRAQI CLAIMS PROCESSING						
Cumulative Through February 14, 1992						
BANK	PRINCIPAL CLAIMED	INTEREST CLAIMED	TOTAL VALUE CLAIMS RECEIVED	PRINCIPAL PAID	INTEREST PAID	TOTAL VALUE CLAIMS PAID
ABC	\$ 79,788,601.46	\$ 19,358,139.72	\$ 99,146,741.18	\$ 71,546,168.54	\$ 9,923,510.45	\$ 81,469,678.99
BNL	313,503,889.37	29,603,581.57	343,107,470.94	0	0	0
COBK	77,142,818.18	12,028,318.76	89,171,136.94	75,599,697.23	6,318,657.43	81,918,354.66
DG	13,025,992.30	1,072,280.49	14,098,272.69	14,725,472.37	559,903.38	15,285,375.75
FCTY	35,881,946.61	4,620,769.13	40,502,715.74	35,164,307.71	2,450,749.13	37,615,056.84
GIB	350,250,160.46	54,220,564.51	404,470,724.97	341,234,806.66	28,225,175.51	369,459,982.17
GIRO	76,203,728.52	14,929,439.37	91,133,167.89	68,949,572.67	7,689,234.30	76,638,806.97
MORG	99,364,482.97	16,617,642.32	115,982,125.29	96,858,927.70	8,861,505.29	105,720,432.99
NBK	140,886,285.68	12,667,950.99	153,554,236.67	138,068,560.16	6,657,343.85	144,725,904.01
UBAF	146,383,792.02	19,785,066.29	166,168,858.31	143,336,393.87	10,342,054.88	153,678,448.75
TOTAL	\$1,334,431,697.47	\$ 184,903,773.15	\$1,519,335,470.62	\$ 985,493,906.91	\$ 80,928,134.22	\$ 1,066,422,041.13

Bank Abbreviations

ABC	Arab Banking Corporation
BNL	Banca Nazionale del Lavoro
COBK	CoBank-National Bank for Cooperatives
DG	DG Bank
FCTY	First City - Texas, Houston
GIB	Gulf International Bank
GIRO	Girozentrale Vienna
MORG	Morgan Guarantee Trust Company
NBK	National Bank of Kuwait
UBAF	UBAF Arab - American Bank

BNL Chronology

**Relating to the Department of Agriculture (USDA)
and the National Advisory Council on
International Monetary and Financial
Policy (NAC)**

1982	U.S. agricultural exports to Iraq total less than \$135 million.
March 1982	The State Department removes Iraq from the punitive list of states sponsoring terrorism.
1983	Iraq begins participating in Commodity Credit Corporation (CCC) Export Credit Guarantee Program with an initial allocation of \$401.9 million in export credit guarantees.
December 21, 1983	Telex from U. S. intelligence in Embassy Baghdad to the Secretary of State states the necessity to provide CCC credits to Iraq because this action "... would demonstrate US confidence in the Iraqi economy."
December 24, 1983	Mr. Eagleburger sent a letter to William M. Draper III, President and Chairman, Export-Import Bank of the United States trying to convince him to allow Iraq to obtain Export-Import Bank financing. This letter states: "I would like to bring to your attention the important role EXIM can play in furthering long range political and economic interests of the United States by being receptive to financing American sales to and projects in Iraq. I understand that there were legal constraints on EXIM financing for sales to Iraq arising from Iraq's links to international terrorists... The terrorism issue... should no longer be an impediment to EXIM financing for U. S. sales to Iraq... From the political standpoint, EXIM financing would show U. S. interest in the Iraqi economy in a practical, neutral context ... This evidence of our interest in increasing commercial relations also will bring political benefits..."
1984	Iraq's allocation in the CCC program is tripled to \$680 million.
	Mr. Christopher Drogoul is appointed Branch Manager of the Atlanta Agency of BNL.

November 1984	Diplomatic relations between the United States and Iraq are restored.
November 28, 1984	Embassy Baghdad forwards study to the Secretary of State concluding that "the Iraqi economy has suffered a serious decline."
1985	In 1985, approximately \$385.8 million in sales of agriculture commodities to Iraq were guaranteed by CCC.
January 21, 1985	Embassy Baghdad sends a telex to the Secretary of State that expresses concern about Iraq's economic problems. According to the telex, "Iraq is faced with massive debt repayment obligations in 1985 and will have difficulty meeting them."
April 14, 1985	Iraq defaults on some of its 1983 rescheduled payments.
December 1985.	BNL's Atlanta branch reached the \$150 million exposure limit set by the bank in its Commodity Credit Corporation (CCC) contracts with Iraq.
1986 and 1987.	BNL's Atlanta employees authorize additional CCC contracts with Iraq despite reaching the authorized limit in 1985.
1986	In 1986, approximately \$354.3 million in sales of agriculture commodities to Iraq were guaranteed by CCC.
March 1986	Eximbank suspended Iraq from its programs because of continual payment problems.
1987	In 1987, approximately \$573.4 million in sales of agriculture commodities to Iraq were guaranteed by CCC.
January 1, 1987	Iraq defaults on a total of \$420 million in loans to major Western governments.
February 1987	BNL-Atlanta off the books transactions with Iraq begin with loan facility with Rafidain Bank, an Iraqi government bank. BNL-Atlanta exceeds the BNL internal \$100 million secured lending limit, having issued \$365 million in letters of credit to Rafidain Bank.
1988	Iraq's CCC allocations totaled for FY 1988 totaled \$1.1 billion.

An Amnesty International report accused Iraq of: 1) having thousands of political prisoners; 2) using torture routinely and; 3) executing thousands without a trial.

January 1988

BNL-Atlanta begins extending letters of credit to the Central Bank of Iraq. By August 1989, the Agency's credits to the Central Bank of Iraq would total some \$2.155 billion.

February 17, 1988

Mr. Drogoul and other BNL representatives fly to Baghdad, Iraq and are met by Mr. Sadik Taha, director general of the Central Bank of Iraq. The purpose of this trip was to sign a \$200 million, 5-year credit facility to be used by the Iraqi military procurement network.

August 1988

In interagency meetings of the National Advisory Council on International Monetary and Financial Policy (NAC), the Treasury and the Federal Reserve Board representatives oppose the proposed \$1 billion for FY 1989 in CCC credit guarantees and recommend a limit of \$600 million, citing Iraq's huge deficit and its practice of rescheduling its debt bilaterally. The State Department representative favors the \$1 billion program level and even discusses the possibility of increasing it.

The U.S. Export-Import Bank experiences arrearage problems with Iraq.

August 20, 1988

Iraq-Iran cease-fire goes into effect.

Agriculture announces an increase in Iraq's fiscal year 1988 CCC credit guarantees by \$36.5 million.

September 8, 1988

Department of State announced that it had conclusive evidence that Iraqi forces used chemical weapons unlawfully against the Kurds and condemned its use.

October 8, 1988

BNL Atlanta Agency signs a second loan agreement for \$150 million with Iraq's Ministry of Industry and Military Industrialization (MINI).

December 1988.

Mr. Drogoul meets in Washington, D.C. with MINI representatives and signs third loan agreement for \$650 million.

December 23, 1988	BNL letter of credit from the account for project 395 and the Technical Corps for Special Projects (TECO). Project 395 is the Iraqi missile program including the missile named Condor II.
1989	<p>According to an Agriculture Department memo "the CCC program cannot be seen by the Iraqi side outside the context of the overall U.S. - Iraqi political relationship." The memo also mentions that the Ambassador to Iraq has stressed the threats to the overall political relationship that a cutoff in the CCC program would pose.</p> <p>In 1989, approximately \$1063.5 million in sales of agriculture commodities to Iraq were guaranteed by CCC. At this time, Iraq is the largest importer of U.S. rice with purchases in 1989 of \$180 million. They purchased \$173 mm in Wheat; \$69 mm in feedgrains; \$37 mm in oilseeds and products; \$94 feed and other grain products; \$64 mm in cotton; and \$34 mm in sugar.</p>
February 15, 1989	According to the Department of State's Country Reports on Human Rights Practices for 1988: "Iraq's abysmal human rights record remained unacceptable in 1988."
February 28, 1989	An Amnesty International report accused Iraq of imprisoning, torturing, and executing children of political opponents.
March 27, 1989	Iraq agreed to pay \$27.3 million in compensation to families of sailors killed in the 1987 attack on the USS Stark.
March 31, 1989	The Washington Post reported that Iraq was secretly engaged in a crash program to build nuclear warheads.
April 8, 1989	Mr. Drogoul goes to London and signs a fourth credit agreement with the Iraqis worth \$1.1 billion.
July 27, 1989	<p>BNL-N.Y. regional management informs Mr. Drogoul that he needs to take immediate steps to correct most serious abuses at Atlanta Agency including unauthorized booked exposure of \$5 million to the Central Bank of Iraq.</p> <p>Informants appear with counsel at the U.S. Attorney's office in Atlanta to report unauthorized</p>

activities at the agency.

August 4, 1989 The FBI, Federal Reserve Bank of Atlanta and the Federal Reserve Board raid the Atlanta Agency of BNL. Federal Reserve Bank of Atlanta conducted its first examination of BNL-Atlanta.

August 8, 1989 Mr. Drogoul returns to the Atlanta Agency from France and is fired by Umberto d' Addosio, general vice president BNL-Rome.

September 1989 The OIG wrote in its September 1989 report: "The CCC program was operating without the benefit of a compliance review process or program to assess the direction and impact the program has had on U.S. and foreign agricultural marketing activities... As a result, U.S. exporters are participating in a \$6 billion program without FAS or CCC conducting a review, or periodic check, to make sure the program is operating in accordance with applicable laws and regulations."

 In a NAC meeting, the Department of Agriculture proposed an interim \$400 million in CCC credits for Iraq. An additional \$400 million would be offered once Iraq was exonerated from responsibility for the BNL scandal. This approach was approved by the NAC. Iraq later rejected this offer as an insult.

September 7, 1989 BNL releases a figure of \$2.64 billion as the total of the unauthorized credits to Iraq, of which \$920 million is not yet disbursed.

September 21, 1989 In a memo from the Customs Service to Robert L. Barr, US Attorney, Northern District of Georgia, the Customs Service states that BNL "is suspected to have provided loans to various U.S. firms for the illegal export to Iraq of missile related technology to be used in the Condor II project."

October 1989 According to a telex from the American Embassy in Rome to the Secretary of State and the Treasury Department the chairman and the director general of Banca Nazionale del Lavoro (BNL) "called on the Ambassador to express their concerns about developments in the BNL-Atlanta affair. They suggested that the matter should be raised to a political level, and indicated their desire to cooperate fully with US Government authorities while at the same time making it fairly clear they want to achieve some kind of damage control."

Department of Agriculture begins administrative review of certain aspects of the Iraq's Export Guarantee Program and irregularities involving BNL-Atlanta's participation in that program.

The Department of Agriculture resubmits its proposal to the NAC for \$1 billion in CCC guarantees to Iraq for fiscal year 1990. Two NAC members oppose the \$1 billion amount.

October 6, 1989

Meeting between Secretary of State Baker and Iraqi Foreign Minister Tariq Aziz. In this meeting Minister Aziz stated that lately there had been reports that "some American agencies" are trying to destabilize Iraq. In the opinion of Aziz, "the CCC program was being linked to the BNL Atlanta branch scandal of which Iraq had no part." Minister Aziz said that such actions was not a sign that the U.S. wanted improvement in relations with Iraq.

The week after this meeting a cable from the U.S. Embassy in Baghdad stated: "As a result of his conversation in Washington last week with Secretary Baker concerning the CCC credits, Foreign Minister Aziz has high hopes that the Secretary will seek to break the current impasse in the US GOI (Government of Iraq) negotiations."

October 11, 1989

According to a State Department memo: "The unfolding BNL scandal is directly involved with the Iraqi CCC program and cannot be separated from it...."

October 13, 1989

According to a State Department memo: "It now appears that at a minimum, elements of the Government of Iraq knew of the illegal dealings of the BNL, but found it convenient to continue using its good offices. Indications are that in addition to violating U.S. banking laws, the BNL's activities with Iraq may have led to diversion of CCC guaranteed funds from commodity programs into military sales... USDA expectations are that the investigation could "blow the roof off the CCC.""

The memo continues on the charges of diversion of CCC funds for other purposes. According to the memo, " ... (I)t appears more and more likely that CCC guaranteed funds and/or commodities may have been diverted from Iraq to third parties in exchange for military hardware... Where documents indicate shipments arrived in Baghdad, the timing appears improbable, shipments arrived in Baghdad

prior to arriving at interim ports."

The memo also mentions that some diverted funds might have been used to acquire nuclear material. According to the memo, "... USDA's Brosch noted that the U.S. Attorney said there was some indication that diverted funds (and possibly direct bank lent funds) were used to procure nuclear related equipment."

October 20, 1989 According to a memo from the Director of the Strategic Investigations Division in the Treasury Department to the Assistant Commissioner of the Office of Enforcement, BNL is suspected to have provided loans to various firms for export to Iraq of missile related technology for use in the Condor II project.

October 26, 1989 Memo to the Secretary of State, James Baker concerning the Iraqi CCC program. The recommendation is that Mr. Baker telephone the Secretary of Agriculture, Clayton Yeutter, to urge that the U.S. government "go forward rapidly with a CCC program, with safeguards and to be made available in tranches, that could go up to the full \$1 billion, provided the review process turns up no evidence of Iraqi wrong doing."

One of the talking points in this memo is: "The CCC program is crucially important to our bilateral relationship with Iraq. We strongly support your effort to reinstitute it... On foreign policy grounds, we support a program of up to one billion, released in tranches, with periodic compliance reviews."

October 30, 1989 Letter from Mr. Alan Charles Raul, General Counsel, USDA, to Mr. Stephen I. Dansansky, Deputy Assistant to the President and Director Office of Cabinet Affairs forwarding a issue paper prepared by the Foreign Agricultural Service regarding the CCC credit guarantee program. In the transmittal letter Mr. Raul writes: "Please let me know if you (or any other members of the group you assembled last week) have any questions on this, or if I can provide further information on the situation with Banca Nazionale del Lavoro."

The issue paper states, "Failure to reach an agreement with Iraq on a CCC program for FY 1990 risks loss of that market and a number of potential spillover effects including: ... impairment of the

carefully measured political rapprochement which the United States has been developing with one of the richest and most influential Arab States ...

Copy of the memo was sent to Mr. Richard Crowley, Under Secretary, International Affairs and Commodity Programs, Department of Agriculture.

November 1989

CIA informs Commerce, State, White House and other agencies about the existence of the Iraqi arms procurement network and its subsidiaries including Matrix-Churchill.

November 3, 1989

Meeting of the National Advisory Council (NAC) alternates to consider the USDA's request for a \$1 billion CCC program for Iraq. The Treasury Department and Federal Reserve members formally moved to block a decision and send it to the NAC deputies committee. An internal State Department memo says that OMB was taking its role as "the administration's watchdog against scandal" a bit too seriously. No decision is made at the meeting.

November 6, 1989

According to a State Department memo sent to the Deputy Secretary of State Lawrence Eagleburger, the Secretary of State (Mr. James Baker) had determined that policy considerations warranted support for a full \$1 billion program of Commodity Credit Corporation (CCC) credit guarantees for Iraq. The recommendation of this memo was that Mr. Eagleburger "telephone Treasury and OMB and urge that a (NAC) Alternate meeting take place as soon as possible to approve USDA's proposed full program of CCC credit guarantees, with safeguards, for Iraq."

November 7, 1989

Letter from Mr. Alan Charles Raul, General Counsel, USDA, to Mr. Stephen I. Dansansky, Deputy Assistant to the President and Director Office of Cabinet Affairs forwarding materials for the NAC meeting. The letter states: "Steve, attached are possible materials for circulation by Treasury for tomorrow's NAC meeting. Thanks for your help with all this and please let me know if there are any additional materials I should prepare."

November 8, 1989

In the NAC Deputies meeting, Mr. Kimmitt says that Secretary Baker believed that the CCC program for Iraq was crucial to the U.S. bilateral relationship with Iraq. According to Mr. Kimmitt, "to abruptly terminate the CCC program in Iraq would clearly be

counter to the President's intention and would furthermore, cause a deterioration in our relationship with the Iraqis."

According to the Treasury representative in this meeting: "... (A)bsent compelling agricultural export and foreign policy interests this proposed programs (CCC credits) probably would not go forward."

In a letter from Lawrence Eagleburger, Deputy Secretary of State, to John E. Robson, Deputy Secretary of the Treasury, Mr. Eagleburger says: "on foreign policy grounds we support the Department of Agriculture's proposal for a full billion-dollar program of CCC export credit guarantees... In addition to the near term benefits for agricultural sales, the CCC program is important to our efforts to improve and expand our relationship with Iraq, as ordered by the President in NSD-26. With regard to the real concerns which arise from the investigation into the operations of the Atlanta branch of the Banca Nazionale del Lavoro, we have received from the Government of Iraq a pledge of cooperation."

The MAC voted to approve the \$1 billion for Iraq to be released in two \$500 million tranches.

1990

An Amnesty International report on Iraq accused Iraq of: 1) holding thousands of political prisoners; 2) torture of political prisoners and; 3) executions without trial (including executions of Iraqis that had come back to Iraq under "official amnesty."

January 4, 1990

According to a State Department memo, "... USDA may still be reluctant to proceed with the second tranche. CCC has been criticised heavily for mismanagement in recent months and may not want to risk pushing for the second tranche at this time. We want to move ahead with the second tranche this month, as the Iraqis have requested. If it appears USDA is holding back, we may want to force the issue by bringing it before the MAC Deputies (Committee)."

January 9, 1990

US Attorney Atlanta letter to Federal Reserve. The latter states, "Anticipated indictments early next month."

January 28,
1990

Treasury Department memo states: "The Assistant U.S. Attorney-Atlanta, now expects to bring initial indictments in the case in February 1990. US understands that the U.S. Attorney-Atlanta has requested but not yet received permission from the Justice Department to ask Iraqi officials for information."

February 1990

John Kelly, Under Secretary of State for Near East and South Asia (NESA) writes memo on CCC program and Iraq. According to this memo, "CCC is a key component of the relationship and failure to approve the second (\$500 million) tranche will feed Saddam's paranoia and accelerate his swing against us. We need to move quickly to repair the damage to the U.S.-Iraqi relationship by getting the critical program back on track."

State Department's memo to the Treasury Department calling for a NAC meeting to discuss the release of the second tranche of CCC credits. John Kelly, Under Secretary of State for Near East and South Asia (NESA) writes: "USDA's present delay in releasing the second tranche damages the interests of U.S. producers that sell to Iraq as well as the political relationship with an important country (Iraq). I therefore request that you (Treasury Department) convene a meeting of the NAC deputies as soon as possible so that I can make State's case for immediate action."

Senator Leahy took the opportunity of hearings on the 1990 farm bill to question the USDA's Richard Crowder, Under Secretary, International Affairs and Commodity Programs about allegations that the US was being pressured to approve the CCC program based on foreign policy grounds. During the hearing Senator Leahy said: "I assume that you are getting some pressure, either from the State Department or elsewhere, within the administration to loan money to Iraq. Or is it just an internal decision made simply by the Department of Agriculture."

Mr. Crowder responded: "We (USDA) are not getting undue pressure from anyone on either side, either for Iraq or anyone else at this time. If we do not agree with it we would not recommend it. If I thought it was appropriate, we would recommend it."

According to the Department of State's Country Reports on Human Rights Practices for 1990: "Iraqi

human rights record remained abysmal in 1989."

February 9,
1990

A State Department cable to the embassy in Baghdad states that the State Department would prefer to decide on the second tranche (\$500 million in credits) after the Atlanta indictments have been announced. According to the cable the indictments are expected to happen "some time this month."

Cable from Lawrence Eagleburger, Deputy Secretary of State to April Glaspie, Ambassador for the United States in Baghdad. In the cable, Mr. Eagleburger apprised Ambassador Glaspie of the State Department proposal that the Justice Department prepare a list of questions that it wanted to ask the Iraqis involved in the BNL scandal. The State Department would then forward the questions to Baghdad urging the Iraqis to be forthcoming with the BNL investigators. Mr. Eagleburger stated that the United States Department of Agriculture attache in Baghdad could be apprised of the strategy, but he was not to convey that strategy back to his colleagues in Washington.

February 12,
1990

Senator Leahy wrote to then Secretary of Agriculture, Clayton Yeutter asking about the BNL scandal and the fiscal year 1990 \$1 billion CCC Program for Iraq. In the letter, Senator Leahy wrote: "I am also disturbed by rumors that foreign policy pressures have encouraged the Department to give Iraq special treatment in this case."

February 20,
1990

USDA Secretary Yeutter answered Senator Leahy and in letter he wrote: "You mentioned that there were 'rumors' that foreign policy pressures have encouraged the Department to give Iraq special treatment in this case. To the contrary, the extension of CCC guarantees in connection with sales to Iraq have recently been subject to special scrutiny because of the BNL investigation."

A previous draft said: "You mentioned that there were 'rumors' that foreign policy pressures have encouraged the Department to give Iraq special treatment in this case. I can assure you that there is no basis to his rumor."

March 1990

US and British Customs stop the export of military electrical components (capacitors) to Iraq which could be used for nuclear weapons.

March 5, 1990 State Department memo related to the release of the second \$500 million CCC installment for Iraq says "National Security Council staff (NSCS) contacted the USDA March 2 to inquire about the delay after the Iraqi Ambassador complained to General Scowcroft."

April 2, 1990 According to a Department of Agriculture memo the Department of Agriculture withheld approval of the second allocation for the past several weeks because they were waiting for the announcement of indictments by an Atlanta grand jury. The Agriculture Department representatives expected that the indictments would be announced in the near future. However, "this has been an expectation for the past 4 weeks."

According to a Department of Agriculture memo: "During the Fall of 1989, there was intense debate among the agencies regarding approval of Iraq's request for an FY 1990 CCC allocation of \$1 billion. The State Department and National Security Council supported a decision favorable to Iraq."

April 5, 1990 According to a Federal Reserve memorandum: "... says that one of the (BNL) transactions done with Rafidain Bank at some point referenced nuclear detonators... (I)t is entirely possible that BNL financed some of this material... The resignation of the United States Attorney in Atlanta has led to a number of difficulties in that investigation. These difficulties have been compounded by what is perceived as interference from the Justice Department in Washington."

April 18-22, 1990 USDA and CCC visit Baghdad, Iraq as part of review of BNL involvement with CCC Export Credit Guarantee Program for Iraq.

April 26, 1990 John Kelly, Under Secretary of State for Near East and South Asia (NESAS) testifies before the Subcommittee on Europe and the Middle East, House Committee on Foreign Affairs.

Mr. Kelly: "Regarding our agricultural programs, U.S. policy in both this administration and the previous one has been not to single out farm exports as tool of foreign policy." p. 4

May 1990 Department of Agriculture sends a background memo to Brent Scowcroft. "... it cannot be

overemphasized that any constraint on CCC credit guarantees must not be based on a foreign policy rationale."

Sandra Charles, Director for Near East and South Asian Affairs at the NSC sends a fax to the USDA's Richard Crowder, Under Secretary, International Affairs and Commodity Programs. Ms. Charles' hand written notes on the memo state: "Dick, with this press release the NSC has no objection to your releasing the report. Suggest you coordinate with State (Department)."

Memo from Ambassador April Glaspie to Mr. Robert Kimmitt, the former Under Secretary for Political Affairs at the State Department; and Mr. Brent Scowcroft, Mr. Timothy Deal and Ms. Sandra Charles from the NSC.

In the memo, Ambassador Glaspie says: "Word has reached the embassy here in Baghdad that Agriculture has decided to turn down the second tranche of CCC credits for Iraq on the basis of irregularities discovered subsequent to the team's visit here....

From a foreign policy perspective the decision is difficult to justify. Coming as it does on the heels of the Dole delegation and my visit. A key theme of both being that the U.S. is not engaged in an anti-Iraq conspiracy and is still open to a decent working relationship if Iraq cleans up its act.

Turning down the CCC credits would send the signal that the administration had decided to join forces with those in the Congress who had already reached the conclusion that the U.S. had no option but to pursue a policy of sanctions and containment.... A sudden shift now will be read by the Iraqis as purely political - - part of the U.S. conspiracy against Iraq....

My own thinking is that unless Agriculture has uncovered a legal hornets nest, we will want to proceed with the second tranche of credits. It remains unclear why we would want to use food as a weapon."

May 16, 1990

Memo from Richard T. Crowder, USDA Under Secretary for International Affairs and Commodity Programs; and Alan Charles Raul, General Counsel to Richard

T. McCormack, Under Secretary of State; Edward S. G. Dennis, Jr., Assistant Attorney General; and Timothy Deal, Special Assistant to the President and Senior Director, International Economic Affairs, National Security Council.

The memo states: "Attached for your review and clearance is a draft report of USDA's administrative review of certain transactions in connection with the CCC program for Iraq."

May 21, 1990

Foreign Agricultural Service, U.S. Department of Agriculture (USDA) issues its report on administrative review of Iraq's CCC Program. It identified four problem areas: unusually high commodity prices in sales to Iraq; Iraq requests for after sales services; questions regarding the arrival of commodities in Iraq; and attempts by Iraq to impose taxes on CCC transactions.

May 25, 1990

Treasury Department memo summarizing a meeting held between Agriculture, Treasury, and State Department. The memo states: "The meeting has been initiated by the NSC staff because they want to prevent the CCC program from being canceled as it would exacerbate the already strained foreign policy relations with Iraq. Agriculture had planned to put out a press release on May 21, 1990 that said the program was being suspended until the investigation into the improprieties in the program were completed. The NSC prevailed on Agriculture to say only that their investigation showed the improprieties may have occurred and remained silent on the suspension. In fact there is a suspension in effect ..."

May 29, 1990

Second NSC deputy's committee meeting convened to go over the options paper and to develop a strategy for dealing with Iraq. The policy options paper said the following about the suspension of the CCC program as a foreign policy option: "Pro: .. suspension of CCC at this point would be a strong political statement. Con: It would violate our policy of using food as a weapon." At the conclusion of this meeting it was decided that the CCC program would be suspended.

June/July 1990

New York Times and Financial Times report that State Department officials intervened to stop the BNL indictments because of concerns over the adverse impact such an action would have on United States-Iraq relations.

June 15, 1990

Hearing before the Committee on Foreign Relations, U.S. Senate, United States Policy toward Iraq: Human rights, weapons proliferation and International Law

John Kelly, Under Secretary of State for near East and South Asia (NESA) testifies before the Senate Foreign Relations Committee.

Mr. Kelly: "Regarding our agricultural programs, US policy in both this administration and in the previous one has been not to single out farm exports as a tool of foreign policy." p. 8, p. 11

July 10, 1990

Acting Secretary of State, Lawrence Eagleburger, sends a memo to all the U.S. Ambassadors worldwide outlining the appropriate embassy role in support of U.S. defense trade. Secretary Eagleburger wrote, "It is the policy of the United States that our diplomatic posts abroad should support the marketing efforts of U.S. companies in the defense trade arena as in all other spheres of commercial activity."

August 2, 1990

Iraq invades Kuwait. USDA announces that all USDA-administered programs with Iraq have been suspended.

September 13, 1990

The State Department added Iraq to its list of countries supporting international terrorism.

October 16, 1990

First hearing on the Banca Nazionale del Lavoro scandal by the Committee on Banking, Finance and Urban Affairs.

Mr. Allen Mendelowitz of GAO testifies: "The reason why we (US government) began I believe back in 1983 extending loan guarantees for agricultural exports to Iraq had as much to do with promoting exports of agricultural commodities as it did with serving foreign policy objectives." p.23

Mr. Barnard asks Mr. Dickerson: "You do not generally meet with the Department of State and they advise you, you ought to be more liberal with one country than others?" Mr. Dickerson for USDA: "No we do not. When it comes to the interagency process which reviews each of these allocations there is discussion on the part of every agency and it is considered but it is market driven as related to risk, not foreign policy directed " p. 24

November 14, 1990	Memo from Alan Charles Raul, General Counsel, Department of Agriculture, to Cameron Woods, Deputy Director, Office of Public Affairs regarding a report on Iraq CCC sales. According to the memo: "USDA consulted with the Justice Department and OIG every step of the way before extending any credit to Iraq after initial rumors surfaced in August 1989. Even before any of the investigations were concluded, <u>USDA recommended a 50% reduction in the level of credit guarantees made available for export sales to Iraq.</u> "
February 1991	According to the Department of State's Country Reports on Human Rights Practices for 1988: "Iraq's abysmal human rights record remained unacceptable in 1988."
February 28, 1991	U.S. Attorney in Atlanta indicts BNL-Atlanta employees in relation to their involvement in the BNL/Iraq loans.
April 19, 1991	A GAO report says: "Often guarantees have been given to further U.S. foreign policy goals as well as to encourage agricultural market development."

Banca Nazionale del Lavoro (BNL) Indictment Documents

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

UNITED STATES OF AMERICA

v.

CHRISTOPHER P. DROGOUL,
THERESE MARCELLE BARDEN,
AMEDEO DECAROLIS,
ENTRADE INTERNATIONAL LTD.,
YAVUZ TEZELLER,
RAPIDAIN BANK,
SADIK HASSON TAHA,
ABDUL MUNIM RASHEED,
RAJA HASSAN ALI and
SAFA HAJI AL-HABOBI

CRIMINAL INDICTMENT

NO. _____

Filed 2/28/92

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THE GRAND JURY CHARGES THAT:

COUNT 1A. INTRODUCTION

At times material herein:

1. Banca Nazionale del Lavoro, an Italian bank organization headquartered in Rome [hereinafter BNL-Rome] with offices throughout the world, maintained a branch office in Atlanta in the Northern District of Georgia [hereinafter BNL-Atlanta]. BNL-Atlanta, an agency of BNL-Rome, was licensed by the State of Georgia. Its operations were to be limited to the arrangement and financing for large commercial customers located in the Southern and Southeastern states and were under the supervision of BNL-Rome and the Regional Manager located in New York City [hereinafter BNL-New York]. BNL-Atlanta had no facilities for accepting deposits or conducting cash or checking transactions for individuals.

2. The defendant CHRISTOPHER P. DROGOU, a national of the United States and France, was First Vice President and Branch Manager of BNL-Atlanta.

3. The defendant THERESE MARCELLE BARDEN, a French national, was Vice President and Operations Officer of BNL-Atlanta.

4. The defendant AMEDEO DECAROLIS was the Operations Assistant and Credit Manager of BNL-Atlanta.

5. The defendant ENTRADE INTERNATIONAL LTD. [hereinafter ENTRADE], a New York corporation with offices in New York, was an indirectly owned subsidiary of Enka Holding Investment Company.

Inc. [hereinafter Enka] of Istanbul, Turkey. The defendant ENTRADE received funding from BNL-Atlanta for various export transactions with the government of Iraq and for other purposes.

6. The defendant YAVUZ TEZELLER, a Turkish national, was Executive Vice President of the defendant ENTRADE and was ENTRADE's principal contact with the defendant DROGOUL at BNL-Atlanta, with Enka-owned entities in Europe and the Middle East and with Compagnie Europeenne du Sud [hereinafter CONSUD], a company registered in Luxembourg and owned by LHM Advisors, a Panamanian company.

7. The Central Bank of Iraq [hereinafter CBI] was the central bank for the government of Iraq and maintained its headquarters in Baghdad. The CBI was one of the entities through which the government of Iraq made arrangements to obtain funds from BNL-Atlanta to finance the purchase of goods, commodities, materials and services.

8. The defendant RAFIDAIN BANK [hereinafter RAFIDAIN] was the principal commercial bank owned by the government of Iraq and maintained its headquarters in Baghdad. Among other things, it was used by the government of Iraq to make arrangements to obtain funds from BNL-Atlanta to finance the purchase of U.S. origin commodities under two programs -- General Sales Manager [GSM] 102 and GSM 103 -- administered by the Commodity Credit Corporation [hereinafter CCC] of the United States Department of Agriculture and to finance other purchases. Rasheed Bank, formerly known as the Number 106 branch of RAFIDAIN, was established by the government of Iraq as

a commercial bank in late 1988, and was also used by the government of Iraq to obtain funds from ENL-Atlanta.

9. The defendant SADIK HASSON TAHA, an Iraqi national, a Director General of the defendant RAFIDAIN, was the Director General for Agreements and Loans for CBI and was Chief Financial Officer for Technology and Development Group, an Iraqi company in London, England.

10. The defendant ABDUL MUNIM RASHEED, also known as ABDUL MUNIM RASHEED ABBAS, an Iraqi national, was a Director General of the defendant RAFIDAIN under and was the Director General of Investments of CBI.

11. The defendant RAJA HASSAN ALI, an Iraqi national, was the Director General of the Economic Department of the Ministry of Industry and Military Production of the Republic of Iraq [hereinafter Ministry of Industry and Military Production] an agency and instrumentality of the government of Iraq, created by combining several ministries and agencies of the government of Iraq including -- the Ministry of Industry, Ministry of Heavy Industries and the Military Production Branch of the State Organization for Technical Industries.

12. The defendant SAFA HAJI AL-HABOBI, an Iraqi national, was the Director General of the Al-Nasser Complex, an entity controlled by the Ministry of Industry and Military Production of the Republic of Iraq, and an officer or director of various Iraqi owned and controlled entities in Iraq, the United Kingdom and the United States, including Technology and Development Group [hereinafter]

TDG]; Matrix Churchill Ltd.; Matrix Churchill Corporation; Al Arabi Trading Company Ltd.; TMG Engineering Ltd. [hereinafter TMG]; Newcastle Foundries Ltd.; Archiconsult Ltd. and Tigris Trading, Inc. The defendant AL-HABOBI solicited funding from BNL-Atlanta for the use of various ministries and instrumentalities of the government of Iraq.

13. By its established policies and procedures, the management of BNL-Rome, commonly referred to as the "Head Office," and BNL-New York, referred to as "Regional Management," required all BNL agency and branch offices, including BNL-Atlanta, to make monthly and other periodic reports on all outstanding medium and long term loans to customers and to other banks, as well as on all outstanding assets, liabilities, extensions of credit, credit agreements and contingent liabilities incurred. These reports -- some of which were made in the form of telephone transmissions of computer data -- were relied upon by BNL-Rome and by BNL-New York in the management of the bank's affairs and in the preparation of reports to the government of Italy. BNL-Atlanta was also required to make monthly and other periodic reports to various bank regulators and government agencies in the United States, including the Board of Governors of the Federal Reserve System, the Department of Banking and Finance of the State of Georgia, the United States Department of Treasury and the Export-Import Bank of the United States [hereinafter Exim Bank].

14. In accordance with its established policies and procedures, BNL-Rome periodically conducted audits or examinations

of the financial operations of its agency and branch office. These audits -- including those performed at BNL-Atlanta -- were conducted by internal auditors as well as by independent auditors. Reports of the audits were supplied to BNL-New York Region Management and to the Inspector's Office at BNL-Rome. The internal and independent auditors relied upon the representations made to them by BNL-Atlanta officers and employees and upon the books and records of financial transactions prepared and presented by BNL-Atlanta's officers and employees. In turn, the management of BNL-Rome and BNL-New York relied upon the reports prepared by the auditors.

15. The Republic of Iraq -- through its ministries, agencies and instrumentalities including the Ministry of Industry and Military Production, CBI and Rasheed Bank, and the defendant RAFIDAIN -- sought to obtain unsecured financing from BNL-Atlanta for the use and benefit of the Republic of Iraq and sought guarantees to third parties from the government of the United States that the Republic of Iraq would repay the loans made to it for the purchase of commodities under the GSM 102 and GSM 101 programs administered by the Commodity Credit Corporation of the United States Department of Agriculture. Foreign credit insurance and guarantees administered by the Export-Import Bank of the United States were also sought.

16. Banca Nazionale del Lavoro, by its established policies and procedures, conferred upon its agency and branch offices varying degrees of credit and lending authority. However, during

all times relevant herein, neither the defendant CHRISTOPHER P. DROGOUL nor BNL-Atlanta had the authority to extend credit or to lend BNL's money to other banks -- such as the defendant RAFIDAIN and CBI and Rasheed Bank -- without the specific approval of BNL-Rome. Rather, BNL-Rome centralized control to avoid excessive risk to BNL from uncreditworthy borrowers, unacceptable loan concentrations and other unsafe and unsound banking practices.

17. On or about February 4, 1985, November 18, 1987 and March 7, 1989, in accordance with the established policies and procedures of Banca Nazionale del Lavoro, the defendant CHRISTOPHER P. DROGOUL on behalf of BNL-Atlanta applied for -- and received -- approval from BNL-Rome to finance credit extensions to the defendant RAFIDAIN, guaranteed by the United States Department of Agriculture's Commodity Credit Corporation, in an amount not to exceed \$150,000,000 at any one time. During the same period, DROGOUL on behalf of BNL-Atlanta applied for and was refused approval to extend an additional \$100,000,000 in credits to RAFIDAIN guaranteed by the CCC. No other approvals for CCC guaranteed or other extensions of credit to the defendant RAFIDAIN were ever sought or received by BNL-Atlanta.

18. On or about March 17, 1988, in accordance with the established policies and procedures of Banca Nazionale del Lavoro, the defendant CHRISTOPHER P. DROGOUL on behalf of BNL-Atlanta applied for approval from BNL-Rome to finance \$100,000,000 in credit extensions to CBI to be guaranteed under the foreign credit insurance program of the Exim Bank. The application was rejected.

19. On or about July 25, 1989, in accordance with established policies and procedures of Banca Nazionale del Lavoro the defendant CHRISTOPHER P. DROGOUL on behalf of BNL-Atlanta applied for -- and subsequently received -- approval from BNL-Rome to finance \$50,000,000 in credit extensions to CBI on a fully collateralized basis. No other approvals for cash collateralized credit extensions guaranteed or other credit extensions to CBI were sought or received by BNL-Atlanta.

20. At no time did the defendant CHRISTOPHER P. DROGOUL apply for -- or receive -- BNL-Rome approval for BNL-Atlanta to extend unsecured credit to the defendant RAFIDAIN, or to CBI, the Ministry of Industry and Military Production, to Rasheed or to any other ministry, agency or instrumentality of the Republic of Iraq.

21. During all times relevant herein, neither the defendant CHRISTOPHER P. DROGOUL nor BNL-Atlanta had authority to extend more than \$2,500,000 in BNL's money or credit for any corporate, bank customer, without the specific approval of BNL-New York and BNL-Rome, even if the transaction was fully cash collateralized.

22. Banca Nazionale del Lavoro, by its established policies and procedures, required that all of its agency and branch offices including BNL-Atlanta, maintain accurate and complete documents regarding the terms of financing on each agreement to extend credit, each credit extension and the beneficiaries thereof, an accurate description of the goods to be financed and all other documentation. Banca Nazionale del Lavoro also required that

BNL-Atlanta officers sign any agreements binding BNL to extend credit or to loan money.

23. Banca Nazionale del Lavoro required, by its established policies and procedures, that its agencies and branches, including BNL-Atlanta, operate within all applicable U.S. and Italian lending limits and in accordance with safe and sound banking practices.

B. THE CONSPIRACY (18 USC §371)

Between in or about November 1985 and the date of this indictment, in the Northern District of Georgia and elsewhere, the defendants CHRISTOPHER P. DROGOUL, THERESE MARCELLE BARDEN, AMEDEO DECAROLIS, YAVUZ TEZELLER, ENTRADE INTERNATIONAL LTD., RAFIDAIN BANK, SADIK HASSON TAHA, ABDUL MUNIM RASHEED, RAJA HASSAN ALI and SAFA HAJI AL-HABOBI did unlawfully, willfully and knowingly combine, conspire, confederate, agree and have a tacit understanding among themselves and with other diverse persons, known and unknown to the Grand Jury:

1. To violate the Wire Fraud statute, Title 18, United States Code, Section 1343, by transmitting and causing to be transmitted certain writings, signs, signals, pictures and sounds for the purpose of executing a scheme and artifice devised and intended to be devised to defraud Banca Nazionale del Lavoro and to obtain money and property by means of false and fraudulent pretenses, representations and promises, and, as of November 18, 1988, to defraud Banca Nazionale del Lavoro of the good, faithful and honest

services of its officers and employees, and to defraud the United States Department of Agriculture;

2. To violate the Mail Fraud statute, Title 18, United States Code, Section 1341, by using the mails for the purpose of executing and attempting to execute a scheme and artifice devised and intended to be devised to defraud Banca Nazionale del Lavoro to obtain money and property by means of false and fraudulent pretenses, representations and promises, and, as of November 1988, to defraud Banca Nazionale del Lavoro of the good, faith and honest services of its officers and employees, and to defraud the United States Department of Agriculture;

3. To defraud the United States of America, its citizens, departments and agencies by impairing, obstructing and defeating lawful governmental functions, more particularly:

[a] the Board of Governors of the Federal Reserve System, an agency of the United States, of and concerning its right to conduct examinations of agencies of foreign banks and to require accurate and truthful periodic reports in conformity with statutes, rules and regulations promulgated by Congress and Board of Governors, and to be free from fraud and false statements;

[b] the United States Department of the Treasury of and concerning its right to require accurate financial recordkeeping and reporting in conformity with the statutes, rules and regulations promulgated by Congress and the Treasury Department, and to be free from fraud and false statements;

[c] the Export-Import Bank of the United States, an agency of the United States, of and concerning its right to aid in financing and facilitating exports and imports between the United States and foreign countries or agencies or nationals thereof, in conformity with the statutes, rules and regulations promulgated by the Congress and the Exim Bank, and to be free from fraud and false statements;

[d] the General Accounting Office, an independent United States agency, of and concerning its right to audit expenditures and evaluate programs and activities of agencies and departments of the United States on behalf on Congress in conformity with the statutes, rules and regulations promulgated by the Congress and the General Accounting Office, and to be free from fraud and false statements;

[e] the United States Department of Agriculture and the Commodity Credit Corporation, an agency of the USDA, of and concerning their right to have the CCC's GSM 102, GSM 103 and Export Enhancement Programs operate in conformity with the statutes, rules and regulations promulgated by the Congress and the United States Department of Agriculture, and to be free from fraud and false statements;

4. To violate Title 18, United States Code, Section 2314, by transporting, transmitting and transferring in interstate and foreign commerce money and securities in excess of \$5,000 knowing the same to have been taken by fraud;

5. To violate Title 18, United States Code, Section 1001, by making and causing to be made materially false, fictitious and fraudulent statements and representations and by falsifying, concealing and covering up by trick, scheme and device material facts in matters within the jurisdiction of agencies and departments of the United States;

6. To violate Title 18, United States Code, Section 1505, by corruptly influencing, obstructing and impeding, and endeavoring to influence, obstruct and impede the due and proper exercise of the power of inquiry under which inquiries and investigations were being had by committees and subcommittees of Congress, for the purpose of concealing and causing to be concealed material facts;

7. To violate Title 18, United States Code, Section 714m, by making and causing to be made materially false and fraudulent statements for the purpose of influencing the actions of the Commodity Credit Corporation, an agency of the United States Department of Agriculture, and for the purpose of obtaining money, property and things of value from the CCC;

8. To violate Title 18, United States Code, Section 493, by making and causing to be made and forged, obligations and writings in imitation of an obligation, instrument and writing issued by a bank for cooperatives and a credit corporation authorized and acting under the laws of the United States; and

9. To conceal and cover up the conspiracy and its objects.

C. MANNER AND MEANS OF THE CONSPIRACY

The charged conspiracy was accomplished by the defendants CHRISTOPHER P. DROGOUL, THERESE MARCELLE BARDEN, AMEDEO DECAROLIS, YAVUZ TEZELLER, ENTRADE INTERNATIONAL LTD., RAFIDAIN BANK, SADIK HASSON TAHA, ABDUL MUNIM RASHEED, RAJA HASSAN ALI and SAFA HAJI AL-HABOBI, and others known and unknown to the Grand Jury, through the following means and methods and in the following manner:

1. Without authority and in contravention of the internal policies and procedures of Banca Nazionale del Lavoro, the credit of BNL would be and was used to obtain in excess of \$4,000,000,000 to fund credit agreements and extensions of credit for the benefit of the government of the Republic of Iraq in contravention of BNL's internal policies and procedures designed to avoid excessive risk to BNL from uncreditworthy borrowers, unacceptable loan concentrations, lending in excess of U.S. and Italian government limits and other unsafe and unsound banking practices.

2. Without authority and in contravention of the internal policies and procedures of Banca Nazionale del Lavoro, BNL-Atlanta would be and was caused to make credit agreements and extend credit to the government of the Republic of Iraq, acting through the defendant RAFIDAIN, in the aggregate amount of approximately \$1,890,000,000, for the purchase of agricultural commodities to be exported to Iraq under the GSM 102 and GSM 103 programs of the United States Department of Agriculture's Commodity Credit Corporation.

3. Without authority and in contravention of the internal policies and procedures of Banca Nazionale del Lavoro, BNL-Atlanta would be and was caused to extend unsecured credit and disburse funds to the government of the Republic of Iraq through the defendant RAPIDAIN, in the approximate aggregate amount of \$250,000,000, for the payment of freight charges and for the purchase of agricultural products, other goods and materials.

4. Without authority and in contravention of the internal policies and procedures of Banca Nazionale del Lavoro, BNL-Atlanta would be and was caused to extend unsecured credit and disburse funds to the government of the Republic of Iraq through the Rasheed Bank, in the approximate aggregate amount of \$70,000,000, for the payment of freight charges and the purchase of agricultural products and other goods and materials.

5. Without authority and in contravention of the internal policies and procedures of Banca Nazionale del Lavoro, BNL-Atlanta would be and was caused to make credit agreements and extend credit to the government of the Republic of Iraq through CBI by entering into four unsecured medium term loan agreements, in the aggregate amount of \$2,155,000,000, at marginal interest rates and under indefinite utilization and repayment schedules with various ministries of the Republic of Iraq, including the Ministry of Industry and Military Production (MIMP):

<u>Date</u>	<u>Place of Execution</u>	<u>Signers</u>	<u>Amount</u>
2/22/88	Baghdad	DROGOUL, [BNL-Atlanta] Von Wedel, [BNL-Atlanta] Unknown signer, [Minister of Trade] TAHA, [CBI]	\$ 200,000,000
10/6/88	Atlanta	DROGOUL, [BNL-Atlanta] Von Wedel, [BNL-Atlanta] ALI, [MIMP] TAHA, [CBI]	\$ 300,000,000
12/3/88	Washington	DROGOUL, [BNL-Atlanta] ALI, [MIMP] Toma, [CBI]	\$ 500,000,000
4/8/89	London	DROGOUL, [BNL-Atlanta] ALI, [MIMP] TAHA, [CBI]	\$1,155,000,000

6. To distinguish the three separate means by which funds would be disbursed for the benefit of the government of the Republic of Iraq, a certain terminology and methodology -- to wit, "Options A, B and C" -- would be and was devised.

[a] Under Option A, as the term was used by the conspirators, BNL-Atlanta would be and was caused to confirm over \$809,000,000 in letters of credit of CBI, acting on behalf of ministries of the Republic of Iraq including the Ministry of Industry and Military Production, and thereafter to pay the designated amounts to the exporters identified in the letters of credit.

[b] Under Option B, as the term was used by the conspirators, BNL-Atlanta would be and was caused to disburse approximately \$693,000,000 solely upon telex requests of CBI,

acting on behalf of the Ministry of Industry and Military Production, which requests contained only limited descriptions of the materials and products purportedly being purchased with no supporting documentation. The disbursements under Option B were directed by the conspirators through a series of clearing accounts maintained by CBI, the use of which accounts effectively concealed not only ENL-Atlanta as the source of the funds generated, but also the identities of ultimate recipients of the funds and the purposes for which they were used.

[c] Under Option C, as the term was used by the conspirators, ENL-Atlanta would be and was caused to disburse over \$107,000,000 solely upon the telephoned instruction of the defendant RAJA HASSAN ALI acting on behalf of the Ministry of Industry and Military Production. Disbursements under Option C were directed through clearing accounts of CBI, the use of which accounts effectively concealed not only ENL-Atlanta as the source of the funds generated, but also the identities of the ultimate recipients of the funds and the purposes for which they were used.

[d] To generate funds to be disbursed for the benefit of CBI and the Ministry of Industry and Military Production under the unauthorized medium term loan agreements, ENL-Atlanta would be and was caused -- on or before the date of disbursement -- to borrow sufficient funds on the world money markets to cover the disbursements. The initial ENL-Atlanta borrowings covering such disbursements were generally done on a short-term, "overnight"

basis. This method of funding would continue until longer term financing, generally up to six months, could be arranged.

[e] In order to administer the acquisition and obligation of funds obtained from BNL-Atlanta, CBI created and staffed a special section under the control of the defendant ABDUL MUNIM RASHEED, Director General of the Investments Division.

7. Without authority and in contravention of the internal policies and procedures of Banca Nazionale del Lavoro, BNL-Atlanta would be and was caused to make largely uncollateralized credit agreements and to extend credit in excess of \$500,000,000 at low interest rates for commercial transactions to non-Iraqi borrowers -- including corporate borrowers who also received money from BNL-Atlanta's financing of exports to Iraq.

8. Without authority and in contravention of the internal policies and procedures of Banca Nazionale del Lavoro, BNL-Atlanta would be and was caused to issue what purported to be standby letters of credit in the aggregate amount of \$88,000,000 on behalf of companies exporting to Iraq, and over \$300,000,000 on behalf of companies exporting elsewhere, for acceptance as performance bonds by the United States Department of Agriculture under the CCC Export Enhancement Program.

9. Various methods would be and were used to conceal the conspiracy and in order to insure its continuing existence and success, including but not limited to:

[a] Failing to enter upon the books and records of BNL-Atlanta, and in turn Banca Nazionale del Lavoro, as required by its

established policies and procedures, complete, truthful and accurate information concerning all financial transactions in which the bank either extended or agreed to extend credit, or became obligated to any party. Between the co-conspirators, these transactions were frequently described as the "off book" or "grey book" transactions. Early on in the conspiracy, BNL-Atlanta CCC guaranteed extensions of credit to the defendant RAPIDAIN -- which exceeded the amount approved by BNL-Rome -- were removed from BNL-Atlanta books at month-end and reentered at the beginning of each new month.

[b] Making false entries upon the books and records of BNL-Atlanta, and in turn Banca Nazionale del Lavoro, in order to make it appear that authorized credit extensions to various parties were actually extended to such parties when, in truth and in fact, the credit was extended to parties whose identities were concealed and undisclosed on BNL's books and records.

[c] Creating bogus documentation, including telexes, facsimiles, correspondence, commercial invoices, money transfer confirmations, payment orders, receipts, loan participations, Commodity Credit Corporation guarantees and other documentation falsely confirming the existence of collateral, all for the purpose of concealing the true nature of various BNL-Atlanta financial transactions from the internal auditors of Banca Nazionale del Lavoro, the bank's independent auditors, Peat, Marvick, Mitchell & Co. and its successor Peat, Marvick, Main & Co. [hereinafter Peat Marvick], auditors from the United States General Accounting

Office and examiners representing the Federal Reserve System and the Georgia Department of Banking and Finance.

[d] Maintaining a facsimile machine in the house of a co-conspirator employed at BNL-Atlanta and using it to transmit bogus communications to BNL-Atlanta's office for inclusion in the files of the bank.

[e] Creating and maintaining records of unauthorized borrowings and extensions of credit on computer discs, on word processing equipment, in notebooks and in cardboard boxes -- which the co-conspirators referred to among themselves as the "floating bankers' boxes" -- in order that these records could be concealed on premises or removed rapidly from the premises of BNL-Atlanta and concealed in the co-conspirators' car trunks and houses in the event that the auditors or examiners should appear.

[f] Creating false audit confirmations to be furnished -- or causing audit confirmations to be withheld -- in response to audit confirmation requests made by the internal auditors of Banca Nazionale del Lavoro and its independent auditors Peat Marwick.

[g] Concealing telex and telefax communications from the internal auditors of Banca Nazionale del Lavoro and its independent auditors, Peat Marwick.

[h] Purchasing -- upon the AAA/aaa credit of Banca Nazionale del Lavoro -- the funds needed to finance unauthorized credit extensions to the government of Iraq and others from money market sources in various parts of the world, which sources were not those regularly used by BNL-Atlanta to fund authorized credit

extensions. As a means of identifying and segregating the records of the transactions by which BNL-Atlanta purchased funds for both authorized and unauthorized credit extensions, the co-conspirators, in conversations and by physically marking various documents, described the latter as "Perugina" -- a reference to a popular brand of Italian candy -- and the former as "non-Perugina."

10. In contravention of the internal policies and procedures of Banca Nazionale del Lavoro, BNL-Atlanta would be and was caused to provide materially false, fictitious and fraudulent information, documentation and reports to various auditors, regulators and U.S. government agencies and departments including the Board of Governors of the Federal Reserve System, the United States Department of Treasury, the Export-Import Bank of the United States, the United States General Accounting Office and the United States Department of Agriculture which misstated the assets, liabilities and contingent liabilities of BNL-Atlanta, and misstated certain BNL-Atlanta financial transactions and operating procedures.

11. Without authority and in contravention of the internal policies and procedures of Banca Nazionale del Lavoro, BNL-Atlanta would be and was caused to spend approximately \$240,000 in BNL funds generated from "off book" or "grey book" transactions for unauthorized travel, entertainment, gifts and other expenses. The defendant ENTRADE paid at least \$80,000 of these unauthorized expenses for which it was later reimbursed from BNL funds. On

other occasions, treasurer's checks were purchased with BNL-Atlanta funds and the proceeds used for similar purposes.

12. Without authority and in contravention of the internal policies and procedures of Banca Nazionale del Lavoro, officers and employees of BNL-Atlanta would and did receive and plan to receive jewelry, antiques, family vacations, home renovations, a leased car, a new house, international travel, entertainment and cash from BNL and from those benefiting from unauthorized BNL-Atlanta funding.

13. Upon discovery of the above described unauthorized activities of BNL-Atlanta on August 4, 1989, Banca Nazionale del Lavoro thereafter would be and was caused to continue making disbursements to the Republic of Iraq under the four unsecured BNL-Atlanta medium term loan agreements and other unauthorized BNL-Atlanta commitments as a result of false and fraudulent representations and pretenses of the defendants SADIK HASSON TAHA, ABDUL MUNIM RASHEED and RAJA HASSAN ALI, and other senior officials of CBI and the Ministry of Industry and Military Production, including representations that:

[a] The Republic of Iraq had valid, binding and legally enforceable medium term loan agreements with BNL-Atlanta totalling \$2,155,000,000.

[b] The ministries, agencies and instrumentalities of the government of Iraq, including CBI and the Ministry of Industry and Military Production, had no indication that the defendant

CHRISTOPHER P. DROGOUL lacked the necessary authority and approval for these credit agreements.

[c] All disbursements under the medium term loan agreements, both past and future, had been and would continue to be for products, activities and projects of a civilian nature.

14. Upon discovery of the above described unauthorized activities of BNL-Atlanta, Banca Nazionale del Lavoro would be and was caused to continue making disbursements under the four unsecured medium term loan agreements with the Republic of Iraq as a result of representations by the defendants ABDUL MUNIM RASHEED and RAJA HASSAN ALI and by other senior officials of CBI and the Ministry of Industry and Military Production that the repayment by Iraq of the \$1,016,000,000 already disbursed by BNL-Atlanta -- and the over \$500,000,000 in CBI letters of credit already confirmed by BNL-Atlanta -- was contingent upon disbursement by Banca Nazionale del Lavoro of the approximately \$600,000,000 as yet unconfirmed under the BNL-Atlanta medium term loan agreements with Iraq.

15. Upon discovery of the above described unauthorized activities of BNL-Atlanta, the United States Department of Agriculture would be and was caused to approve an additional \$500,000,000 in Commodity Credit Corporation guarantees for U.S. exports to Iraq in reliance upon the misrepresentations and false pretenses that ministries, agencies and instrumentalities of the government of Iraq, including the defendant RAFIDAIN, had no indication that the defendant CHRISTOPHER P. DROGOUL lacked the

necessary authority and approval for the over \$1,890,000,000 in BNL-Atlanta credit agreements and extensions to the defendant RAFIDAIN for the funding of prior CCC guaranteed exports to Iraq and for the financing of unsecured freight charges on the exports.

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

SEP 12 1991

By: *Ch*
Deputy

UNITED STATES OF AMERICA

v.

CRIMINAL INDICTMENT

NO. 1:91-CR-078-04

CHRISTOPHER P. DROGOUL,
THERESE MARCELLE BARDEN,
ANGELO DECAROLIS,
ENTRADE INTERNATIONAL LTD.,
YAVUZ TEKELER,
RAFIDAIN BANK,
SADIK HASSON TANA,
ABDUL MUNIM RASHEED,
RAJA JASSAM ALI and
SAFA NAJI AL-HABOBI

GOVERNMENT'S RESPONSE TO DEFENSE MOTIONS FOR LIST OF
UNINDICTED CO-CONSPIRATORS

Comes now the United States of America and names the
following unindicted co-conspirators:

Unindicted Co-Conspirators Count I

Persons

Amir H. Al-Saadi

T. Al-Tychmachi

Wafai Dajani

Julie Daniels

Zuhair Dawud

Pierre G. Drogoul

Charles C. El-Chidiac

Employer During Conspiracy

Ministry of Industry
& Military Production

Rafidain Bank and Rasheed Bank

Amman Resources, Inc.
Aqaba Packaging
Araba Holdings

BNL-Atlanta

Iraq Grain Board

CONSUD, TMCI

Selco East Consultants

Branda Forrest	BWL-Atlanta
Subi Frankool	Central Bank of Iraq
Thomas Mobley Fiebelkorn	BWL-Atlanta (plead guilty to Criminal Info. # 1:91-CR-126)
Central Bank of Iraq	
Kamil Hassan Hussein (Hussein Kamil Hassan)	Ministry of Industry & Military Production
Jean Ivey	BWL-Atlanta
Fadel Javad Kadhum	Ministry of Industry & Military Production Matrix Churchill, Ltd. Matrix Churchill Corp. and T.D.C.
Mela Maggi	BWL-Atlanta
Saalin (Sam) Naman	Matrix Churchill Corp.
Leigh Ann New	BWL-Atlanta (plead guilty to Criminal Info. # 1:91-CR-88-01)
Robert Post	BWL-Atlanta
Pamela Prosser	BWL-Atlanta and Entrade International Inc.
Patricia Scudellari	BWL-Atlanta
Abdulahad P. Toma	Central Bank of Iraq
Paul Robert VonWedel	BWL-Atlanta (plead guilty to Criminal Info. # 1:91-CR-89-01)

Unindicted Co-Conspirators Count II

<u>PERSONS</u>	<u>Employer During Conspiracy</u>
Fritz (Guiddy) Saehler	Cargill International S.A.
Cargill, Inc.	
Cargill International S.A.	
Curt Johnson	Cargill, Inc.
Mike Mooney	Cargill, Inc.
Huub Spierings	Cargill International S.A.
Eduardo Vigil	Cargill, Inc.

Respectfully submitted,

GERRILYN G. BRILL
ACTING UNITED STATES ATTORNEY

Gale McKenzie
GALE MCKENZIE
ASSISTANT UNITED STATES ATTORNEY

1800 Richard Russell Building
75 Spring Street, S.W.
Atlanta, Georgia 30335
Georgia Bar No. 494800
(404) 331-6446

CERTIFICATE OF SERVICE

This is to certify that I have this day served upon the following persons listed below a copy of the foregoing document by depositing in the United States mail a copy of same in a franked envelope requiring no postage for delivery:

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Paul Kimb, Esq.
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Atlanta, GA 30303

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P.O. Box 1927
Athens, GA 30601

Attorney for Therese M. Barden

William J. Schwartz
Kronish, Lieb, Weiner & Hellman
1345 Avenue of the Americas
New York, New York 10105

Seth Kirschenbaum
Davis, Eipperman, Kirschenbaum & Lotito
918 Ponce de Leon Avenue, N.E.
Atlanta, Ga 30306

Attorneys for Entrade International Ltd.

This 12th day of September, 1991.


GALE MCKENZIE
ASSISTANT UNITED STATES ATTORNEY

NEWS

Department of the Treasury
U.S. CUSTOMS SERVICE



FOR IMMEDIATE RELEASE

February 28, 1991

WASHINGTON--United States Customs Commissioner Carol Hallett today called the BANCA NAZIONALE DEL LAVORO (BNL) indictments "the first chapter in a sordid international story which deals with Iraqi efforts to build itself into a world power in defiance of U.S. and International law." Commissioner Hallett noted "that the rest of the story is still being written and I hope to be able to conclude it very soon."

Commissioner Hallett pointed out that the BNL case has given birth to a number of other cases which are currently being pursued by Customs both in the United States and Internationally. She declined to comment on the direction the cases are taking other than to say "each investigation has a direct link to BNL."

The United States Customs Office in Atlanta participated in a joint investigation with the Department of Agriculture, Internal Revenue Service, Federal Bureau of Investigation, Treasury's Office of Foreign Asset Control and Federal Reserve Bank examiners for the past eighteen months investigating the financial and exporting activities of Christopher P. Drogoul, former First Vice President and Manager of Banca Nazionale del Lavoro (BNL Atlanta), and other conspirators in Iraq. The investigation has also led to charges against Drogoul for his financing of the 26 million dollar purchase of Cuban sugar being

- more -

REPORT DRUG SMUGGLING 1-800-BE ALERT

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sold to the government of Venezuela with the use of American financing in violation of the Cuban Assets Control Regulations, 31 CFR Part 515 and the Trading with the Enemy Act, 50 USC App 5.

The Title 50 TWEA violations involve officials of BNL issuing confirmation to Banco Industrial de Venezuela for letters of credit and otherwise financing the sale of the commodity which was destined for Cuba.

For Further Information Contact: Bill Anthony, Office of Public Affairs, Washington, D.C. 202/566-5286



Department of Justice

FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 28, 1991

CRJ
202-514-2007
(TDD) 202-514-1888

**OFFICERS OF ITALIAN BANK IN ATLANTA CHARGED WITH MAKING
FRAUDULENT LOANS TO IRAQ TOTALING MORE THAN \$4 BILLION**

WASHINGTON, D.C. -- The Department of Justice today announced that ten defendants, including two former officers and an employee of an Italian government-owned bank in Atlanta, Georgia, Banca Nazionale del Lavoro (BNL), have been charged in a 347-count indictment with conspiracy, mail fraud, and wire fraud. The charges relate to more than \$4 billion in loans and credit extensions issued by BNL-Atlanta for the benefit of the government of Iraq.

Also charged in the indictment are a Turkish-owned corporation operating in New York and its manager, an Iraqi government-owned bank, and four Iraqi officials.

Attorney General Dick Thornburgh characterized today's indictment as exposing "an international white-collar scam with dire global consequences. The 18-month investigation of this crime has, so far, unraveled a paper-trail spanning three continents.

"By utilizing modern technology such as computers, fax machines and instant communications, these defendants were able

(MORE)

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to silently pick the pockets of a major Italian bank of more than \$4 billion in loans and credits, almost by the push of a button.

"U.S. authorities also were deceived through a systematic program of forgery, falsification, omissions, and misstatements.

"This case should serve notice -- to those who have been slow to realize -- that law enforcement is now prepared to deal with criminals who seem to neither know, nor fear, nor respect international borders," Thornburgh said.

The indictment charges that three BNL-Atlanta branch office employees and their associates conspired to defraud BNL by loaning money and extending credit to the Iraqi government without authorization.

[The loans and credits, according to the indictment, were made in violation of BNL, Italian, and U.S. lending limits and were not reported in the bank's records.]

The indictment also charges that false information, documentation, and reports were supplied to federal and state banking regulators as well as authorities of the Italian government in order to conceal the unauthorized funding.

The illegal transactions were allegedly maintained in a secret set of "grey books" -- those not reported in the bank's official records -- through the use of separate computers, word processors, and disks. Written records were kept as "floating

(MORE)

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files" -- outside the bank in boxes, car trunks, and private homes -- to escape detection.

Money loaned to Iraq, according to the indictment, was raised through a money-desk at BNL-Atlanta using BNL's triple-A credit rating to borrow on the international money market.

(Individual BNL employees allegedly received jewelry, antiques, family vacations, a leased car, a new house, international travel, entertainment, and money from BNL and those who benefited from the unauthorized loans and credits as payment for their participation in the scheme.

Possible violations of federal law in connection with the acquisition by Iraq of military armaments and other goods remains under investigation.

The institutions charged face possible maximum fines totaling over \$90 million.)

Defendants:

(BNL RELATED)

-- Christopher P. Drogoul, a national of the United States and France, and former First Vice President and Manager of BNL-Atlanta, is charged with conspiracy, mail and wire fraud, making false statements, and interstate transportation of stolen property. Drogoul is also charged with trading with the enemy, money laundering, forgery, obstruction, and tax evasion.

(MORE)

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-- Therese Marcelle Barden, a French National, and former BWL-Atlanta Vice President and Operations Officer, is charged with conspiracy, mail and wire fraud, making false statements, and interstate transportation of stolen property.

-- Amedee Decarelis, an American, and former BWL-Atlanta Operations Assistant, is charged with conspiracy, mail and wire fraud, making false statements, and interstate transportation of stolen property.

(ENTRADE RELATED)

-- Entrade International, Ltd. (Entrade), a New York-based trading company specializing in the international trade of goods and commodities, is charged with obtaining unauthorized financing from BWL-Atlanta for exports to Iraq and other purposes, often with U.S. government export guarantees or insurance.

[Entrade also allegedly provided money and things of value for the personal use and benefit of BWL-Atlanta officers and employees in consideration for the unauthorized loans made to finance Entrade's exports to Iraq and elsewhere.]

Entrade faces a possible maximum fine of \$54.04 million.

-- Yavuz Teseller, a Turkish national, Executive Vice President of Entrade and manager of its New York office, is charged with directing Entrade's contacts with BWL-Atlanta, and

(MORE)

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with other entities in Europe and the Middle East owned by Entrade's parent holding company, Enka.

(IRAQ RELATED)

-- Rafidain Bank (Rafidain), located in Baghdad, is the principal Iraqi government-owned commercial bank.

Rafidain, according to the indictment, acted as the borrower to arrange financing for Iraqi purchases guaranteed by the U.S. Department of Agriculture through the Commodity Credit Corporation (CCC), and to arrange unsecured credit for imports by Iraqi government ministries and enterprises.

BNL credit extensions to Rafidain were concealed from BNL official reports and U.S. authorities including the Federal Reserve System.

Rafidain faces a possible maximum fine of \$39.04 million.

-- Sadik Hassan Taha, an Iraqi national, is a Director General of Rafidain, and Director General of Agreements and Loans for the Central Bank of Iraq (CBI). Taha is also chief financial officer for Technology and Development Group, an Iraqi owned company in London, England.

Taha is charged with conspiracy, wire fraud, and money laundering.

-- Abdul Munim Rasheed, also known as Abdul Munim Rasheed

(MORE)

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Abbas, an Iraqi national, is a Director General of Rafidain, and CBI Director General for Investments.

Rasheed is charged with conspiracy, wire fraud, and money laundering.

-- Raja Hassan Ali, an Iraqi national, and Director General of the Economic Department of the Ministry of Industry and Military Production of Iraq, is charged with conspiracy, wire fraud, and money laundering.

--(Safa Haji Al-Nabobi), an Iraqi national, is Director General of the Al-Nasser Complex, an entity controlled by the Iraqi Ministry of Industry and Military Production. Al-Nabobi is also an officer or director of various Iraqi owned and controlled entities in Iraq, the United Kingdom and the U.S., including Technology and Development Group(TDG); [Matrix Churchill, Ltd.;] Matrix Churchill Corporation; Al Arabi Trading Company, Ltd.; TMC Engineering, Ltd.; Newcastle Foundries, Ltd.; Archiconsult, Ltd. and Tigris Trading, Inc.

Al-Nabobi allegedly solicited funding from BNWL-Atlanta to be used by various Iraqi ministries. He is charged with conspiracy, wire fraud, and money laundering.

Background:

BNWL-Atlanta was opened in 1982 as a small lending office to

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provide financing for U.S. and Italian companies doing business in the U.S.

As Manager and First Vice President of BNL's Atlanta branch, Drogoul was specifically limited in authority to act on BNL's behalf by a set of official written policies, procedures and guidelines issued by BNL to restrict the types, amounts, terms and borrowers on various types of loans and credits.

According to the indictment, in December 1985 Drogoul first sought to make loans far in excess of his authority, in order to finance commodity exports to Iraq under two of the U.S. Department of Agriculture's CCC export guarantee programs.

Although loans under this program were 98 percent guaranteed by the Department of Agriculture, Drogoul allegedly knew that these loans carried risk of loss to BNL and that any loans to other banks required approval from BNL headquarters in Rome.

The indictment charges that Drogoul, Barden, and Decarolis, without authority and in contravention of BNL's internal policies and procedures, caused BNL to extend the following credits to the Iraqi government:

- a \$1.9 billion extension of credit to the Iraqi government through Rafidain Bank for the purchase of CCC agricultural commodities.

- more than \$88 million in standby letters of credit issued for acceptance as performance bonds by the U.S. Department of

(MORE)

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Agriculture under specific CCC programs involving exports to Iraq.

-- a \$250 million extension of unsecured credit through Rafidain Bank for the purchase of agricultural products, other goods and materials, and freight charges.

-- a \$70 million extension of unsecured credit to the Iraqi government, through the Iraqi government-owned Rasheed Bank, for the payment of freight charges and the purchase of agricultural products and other goods and materials.

In connection with the CCC financing, the indictment charges that Drogoul received substantial kickbacks from Tezeller and Entrade acting as intermediaries in the sale and shipment of grains to Iraq.

Medium term loan agreements:

As the CCC financing progressed, Entrade, and Rafidain wanted to use BNL-Atlanta to finance other types of exports in addition to agricultural commodities. Unsecured financing was allegedly arranged in violation of BNL's official policies and procedures since these exports could not qualify for CCC guarantees and the Iraqi government lacked adequate collateral.

The indictment alleges that Drogoul signed a letter of intent in 1987 for a Medium Term Loan Agreement (MTL) to handle Iraq's demand for additional loans. In February 1988, Drogoul

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signed an MTL and committed BNL-Atlanta to provide \$200 million in entirely unsecured loans for Iraqi purchases either by direct transfer to Iraqi bank accounts in the U.S., or by confirming letters of credit guaranteed by CBI to exporters of goods and services to Iraq. The export companies were principally based in the U.S., the U.K., and Europe.

The indictment charges that these loans were made despite BNL's official policies and procedures, which required any bank loan to Iraq to be approved by BNL headquarters in Rome to protect against risk of capital loss if Iraq should default.

A second unsecured MTL was signed by Drogoul on behalf of BNL in October 1988 for \$300 million. A third was signed in December 1988 for \$500 million, and a fourth in April 1989 for another \$1.155 billion.

The indictment further alleges that BNL-Atlanta, through the actions of Drogoul and others, made extensions of credit through the use of MTL's for the benefit of various interests and entities of the Iraqi government, including the Ministry of Industry and Military Production. These credit extensions were made through CBI at marginal interest rates and under indefinite repayment schedules.

The indictment also charges that none of the four MTL agreements totaling \$2.155 billion could have been made within the proper authority of Drogoul or other BNL officers. None of

(MORE)

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the MTL agreements or related loans were recorded or entered in BNL's books and records, or reported to BNL in its required periodic reports, or reported to the Federal Reserve System or the Treasury Department.

Drogoul enlisted Barden and Decarolis to operate and conceal the high volume of resulting transactions, in part by designing and maintaining a secret set of "grey books" apart from the official records of the bank.

Money was raised through a "money desk" within BNL's Atlanta offices using BNL's own triple-A credit rating.

The indictment also charges that Drogoul and others at BNL-Atlanta maintained their secret, set of "grey books" on separate computers, word processors, and disks. Written records were allegedly kept as "floating files" stored in bankers boxes in their car trunks and homes, out of reach of auditors and examiners. The concealment of records, according to the indictment, continued from late 1985 until August 4, 1989.

The indictment is the result of an 18-month investigation conducted by the U.S. Attorney's Office for the Northern District of Georgia, the Office of Inspector General of the U.S. Department of Agriculture, the Federal Reserve Bank of Atlanta, the U.S. Customs Service, the Internal Revenue Service (IRS), and the Federal Bureau of Investigation (FBI).

91-85

Penalties:

	Maximum Years Imprisonment/Count	Maximum Indiv. Fine/Count	Maximum Corp. Fine/Count
Conspiracy	5	\$250,000	\$500,000
Wire Fraud	5	\$250,000	\$500,000
False Statements	5	\$250,000	\$500,000
Obstruction of GAO	5	\$250,000	
Mail Fraud	5	\$250,000	\$500,000
False Statements to USDA	5	\$10,000	\$10,000
Falsification of USDA Documents	5	\$250,000	
Money Laundering	20	\$500,000	\$1 million
Trading with the Enemy	10	\$50,000	
Tax Evasion	5	\$250,000	
Interstate Transportation of Stolen Property	10	\$250,000	\$500,000

ATTENDEES AT BNL PRESS CONFERENCE

1. Leon Snead
Inspector General
Department of Agriculture.
2. William Sessions
Director
Federal Bureau of Investigation.
3. Carol Hallett
Commissioner of Customs.
4. Inar Morics
Assistant Commissioner
Criminal Investigation Division
Internal Revenue Service.
5. Virgil Mattingly
General Counsel
Board of Governors of the Federal Reserve System.
6. Robert Mueller
Assistant Attorney General
Criminal Division.
7. Gerrilyn Brill
Acting U.S. Attorney (for purpose of this case)
Northern District of Georgia.

**EMBASSY OF THE
DEMOCRATIC AND POPULAR
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Banking, Finance & Urban Affairs Committee

JUN - 3 1992

FOR IMMEDIATE RELEASE

MAY 26, 1992

**U.S. EXPORT CREDIT PROGRAM GSM 102
(EXPORT CREDIT GUARANTEE PROGRAM)**

- Enclosed is an explanatory note, in English and Arabic, from the Iraq Interests Section regarding the U.S. Export Credit Program GSM 102 (Export Credit Guarantee Program) in which the U.S. Government began to include Iraq in, in 1982.
- Also enclosed is a United States Department of Agriculture review of Iraq GSM-102 Program dated May 21, 1990.

Explanatory Note

As it is known, the U.S. Export Credit Programme GSM-102, known as "Export Credit Guarantee Programme", in which the U.S. Government began to include Iraq in 1982 is a loans programme aiming to reactivate the trade relations with other countries through the provision of credit facilities that would assist the recipient country ensure its agricultural needs at reasonable prices and good facilities, and also help the United States sell its agricultural products and ensure foreign markets for them.. In other words, this programme was not a favour bestowed upon Iraq, but rather of mutual benefit for both sides.

During the years in which Iraq made use of the programme, it complied fully with all relevant commercial and financial terms including payment of financial dues in their scheduled periods, a matter, had it not been effected, the implementation of the programme would not have been continued until the end of 1989.

Of late, certain articles and analyses on this subject have appeared in the Western media with a view to offending Iraq and defiling its commercial and political reputation even perhaps to motivating U.S. President Bush to perpetrate further retributory acts against Iraq under the pretext that his administration and that of his predecessor, Reagan have "helped" Iraq.

During the negotiations that took place between both the Iraqi and American sides in the fall of 1989 for the renewal of agricultural credit facilities for the fiscal year 1989/1990, the American side cited discrepancies in utilizing the programme in question. The Iraqi side during these meetings reiterated its full readiness to cooperate with the U.S. side in reviewing such alleged discrepancies in order to find out their true nature.

The then Iraqi Foreign Minister, Mr. Tariq Aziz made emphasis during his meeting with the U.S. Secretary of State, Mr. Baker in November, 1989 on the mutual benefit accomplished by the two countries from the export credit guarantees programme and the necessity of its continuation from this angle. Mr. Aziz also reiterated the readiness of the Iraqi competent authorities to cooperate in investigating any violations of the agreement's terms, due to the fact that Iraq maintains a firm and well-known stance with

regard to administrative corruption, and can tolerate same should it exist. The Secretary of S promised to address this issue, and the 1st installment amounting to half of the agreement's value was actually released for that year. The second installment was suspended then discontinued by the U.S. Administration in light of the decision taken later by the U.S. Congress early 1990.

A U.S. delegation representing the Department of Agriculture and the State visited Iraq during 18 April, 1990 in order to discuss the following points which were regarded in the view of the U.S. side as inconsistent with the objectives and applications of the programme:

1. Overpricing.
2. Using part of the programme to cover after-sale services.
3. Using part of credit facilities to cover stamp duty on the signed contracts.
4. Diverting the final destination of commodities covered by this programme.

After reviewing the aspects of aforementioned allegations with respect to after-sale services and stamp duty levied on contracts which had been executed on the programme's account, the presentation of the documents which confirm arrival of the agricultural commodities covered by the programme to Iraq, and after intensive discussions acquainting the American side with all substantial details regarding the sound applications taken by Iraqi competent import authorities, and due to the fact that the American side was not previously in possession of clear ideas that such matters run counter to the rules related to the utilization of credit facilities, the American delegation became convinced at that time that the aspects referred to above did not constitute fundamental and basic infractions, particularly of paragraphs (2&3) as much as they were merely local procedures and instructions for execution of the contracts signed by the Iraqi authorities with all suppliers of various origins, not exclusively confined to the American side.

Notwithstanding, it was agreed that the Iraqi authorities would undertake not to forward claims for after-sale services with the suppliers and to exclude the contracts which were concluded within the sphere of the aforementioned programme from the stamp duty.

through the note dated 22 April, 1990 from the Iraqi Ministry of Trade. It is worthwhile noting that this exemption was granted exclusively to the contracts covered by the American programme for agricultural credit exports guarantee, while contracts for similar commodities imported from other origins remained covered by the stamp duty.

As regards paragraph (4) which is related to the final destination of the U.S. agricultural exports, the Iraqi side presented to the U.S. delegation samples of the documents that proved the entry of those goods into Iraq, on the basis of which the U.S. delegation became convinced of the soundness of our procedures and that those imported items were consumed in full inside Iraq.

The basic aspect focused on during the discussion which received intensive attention through the analysis of the concluded contracts from specific samples was the subject of overpricing. The U.S. side, upon reviewing the contracts and conducting investigations, noted the existence of overpricing of some of the commodities which had been imported on the programme's account which varied between 16-20 US dollars for a ton of maize, 15-35 US dollars for a ton of sugar and 10-20 US dollars for a ton of rice.

On discussing the issue with those concerned in the Iraqi ministries the following became evident to the U.S. side:

whereas the central and valid regulations in Iraq at the time (1986 and 1987) stressed on deferred payments contracts rather than cash payments due to the difficulties Iraq was facing in obtaining full funding for freight costs of the goods imported within the framework of the programme. And whereas the terms of the programme itself do not allow maritime freight, and in order to ensure the anticipated benefit and render it effective in increasing the competitive ability of the American agricultural commodities and consequently expanding their importation, some import authorities in Iraq found that the best means to realize all these common consideration was to resort to overpricing and use the difference to secure costs of handling and freight for the goods in question. Having examined all the documents, the American delegation became convinced of the good-will and sound stance of the Iraqi side, except for the fact that it was

inconsistent with some of the loan terms in 1

The U.S. delegation stated in 1 presented to the Assistant Secretary of the of Agriculture following its return to Washi the increase in price rates was a resu Iraq-Iran war circumstances, and there w number of American suppliers who were w participate in that perilous market at ti well as the Iraqi policy of asking to finance costs, and the existence of a little suppliers willing to fulfill such request.

It became established to the U.S. that the overpricing had occurred only during and the fact that the subsequent-allocation Department of Agriculture of the rate of 10 of the granted credits to cover transport cos an end to overpricing, which had proven the the Iraqi side.

Any fairminded person wishing to f facts can revert to the report submitted l delegation following their return to Washi was published by the U.S. Department of Agr. 21 May, 1990. The said report explicit these facts.

At the same time the campaigns whic Iraq focused on the participation of one of 1 banks, Banca Nazionale del Lavoro (BNL) 1 Atlanta branch in USA in part of the guarant under the programme throughout those years that inconsistencies and bribes had taken this connection we wish to clarify as follows

1. The dealing of the Iraqi competent a with Banca del Lavoro was purely commerc competitive basis with the rest of American commercial banks. No exploitat amount of such facilities was made w knowledge and the approval of the bank.
2. All the contracts which were financed by Lavoro within the sphere of this proce related to food and agricultural Moreover, other kinds of loans w benefited from with this bank were all civil industry in Iraq, and were not us industrial military purposes. The bank carried out a series of checking

carried out a series of checking procedures related to the nature of the contracts and investigations on the contracting firms prior to releasing its approval on them.

3. It was frequently rumoured that some firms, such as the American company Matrix Churchill was allegedly exporting equipment used for military purposes, while in fact it is a marketing and not a manufacturing company and has assumed an intermediary role in several civil projects in Iraq such as the manufacture of copper, water pipes, industrial fibres and textiles in accordance with proper export licences duly issued by the competent American authorities.
4. No indictment was issued against any of the Iraqi officials in the so-called "Lavoro case". Those whose names appeared during the investigations conducted by the American judicial authorities were merely for testifying as witnesses.

NEWS

United States
Department of
Agriculture

Press Se
Room 2
Washing

Office of the
Secretary

Kelly Shipp (202) 4

ADMINISTRATIVE REVIEW OF IRAQ GSM-102 PROGRAM

WASHINGTON, May 21—Under Secretary of Agriculture for International and Commodity Programs Richard T. Crowder released today the results to the U.S. Department of Agriculture's administrative review of the Export Credit Guaranty Program (GSM-102) for Iraq.

The administrative review has involved the examination and analysis over seven months, of certain records pertaining to GSM-guaranteed sales to Iraq, information submitted by exporters to the Commodity Credit Corporation, U.S. records and exporter records. As part of the review, a USDA team traveled to Iraq for discussions with Iraqi officials, and review of Iraqi documents, on April 11. The Office of the General Counsel, the Foreign Agricultural Service, CCC and the Department of State were represented on the review team.

The administrative review focused on four particular potential problems identified by USDA: unusually high commodity prices in GSM sales to Iraq for the period 1985-1987; Iraqi requests to exporters for "after sales services"; attempts to impose certain taxes on GSM transactions; and questions regarding the export of commodities in Iraq.

The U.S. government has not incurred any losses as a result of GSM-102 sales to Iraq. Iraq has participated in the GSM program since 1983 and has purchased \$4.5 billion in U.S. agricultural products.

0561

EXECUTIVE SUMMARY

REPORT: USDA ADMINISTRATIVE REVIEW OF IRAQ GSM-102 PROGRAM

In October, 1989, the U.S. Department of Agriculture and the Commodity Credit Corporation (hereinafter "USDA") initiated an administrative review of certain aspects of the Export Credit Guarantee (GSM-102) program for Iraq. This administrative review was undertaken in response to allegations that surfaced as a result of the investigations of the Atlanta, Georgia agency of Banca Nazionale del Lavoro (BNL), about possible irregularities in the GSM-102 program for Iraq. This review focused on certain transactions and issues that were identified as a result of the investigation in Atlanta.

Iraq began participating in the GSM-102 program in 1983 during which approximately \$214.7 million in sales of agricultural commodities were guaranteed by CCC. Program levels increased each year thereafter, reaching a high of \$1.051 billion in FY 1989. For FY 1990, program levels were set at \$500 million. As to date, nearly all of that line has been registered for guarantees with CCC.

Review of the Iraq GSM-102 program began last fall after USDA learned of allegations that approximately \$720 million of CCC-guaranteed loans were part of a loan portfolio being investigated by the Office of the United States Attorney for the Northern District of Georgia. Allegedly, the CCC-guaranteed loans were part of a clandestine loan operation in which officials of the Atlanta branch of Banca Nazionale del Lavoro (BNL) had booked more than \$2 billion in unauthorized and unreported loans to Iraq.

As a result of its initial inquiries into these loans, USDA initiated an administrative review focusing on the following issues:

- o unusually high FOB prices obtained by exporters in connection with GSM-guaranteed sales to Iraq financed through BNL;
- o the arrival in Iraq of agricultural commodities shipped under the GSM program.
- o provision of additional goods or monetary rebates, as so-called "after sales service", in connection with GSM-guaranteed export sales to Iraq.
- o payment of certain Iraqi domestic taxes in conjunction with GSM-guaranteed sales.

The USDA administrative review has involved review of BNL of GSM-102 transactions; review of CCC records; review of certain exporter records; telephone interviews with several companies involved in the agricultural export trade; and discussion with officials of the Government of Iraq and various state purchasing enterprises, and review of Iraqi records, during a visit to Baghdad on April 18-22, 1990.

As a result of its administrative review, and its analysis of bank, exporter and Iraqi records, USDA has reached some conclusions about past conduct of the Iraq GSM-102 program as follows:

(1) USDA analysis indicates that during the period 1987, sale prices to Iraq for corn, rice and sugar under the 102 program were much higher than price levels in other markets. Price levels paid by Iraq appear to be at least \$10/MT higher than benchmark world prices for rice and corn, and \$15-40 higher for sugar. It appears that these price levels may have resulted in part from supplier perceptions that Iraq was a high risk market due to wartime conditions; because of the limited number of U.S. suppliers who were willing to part in this high risk market; and, Iraq's policy of seeking financing which only a limited number of suppliers are willing to provide.

(2) In some of the higher priced transactions reviewed appeared that a portion of the high FOB prices reported to CCC -- approximately \$8-10/MT -- represented an allocation of what should have been considered either freight or freight financing charges. It appears, therefore, that this "allocation" technique may have been used to shift the freight financing of a CIF sale to the loan guarantee during a time period in which CCC did not permit financing freight under its guarantees, and that Iraq agreed to the allocations. This practice may have constituted violation of certain exporters of program regulations. While these allocations did not result in any losses to CCC or the U.S. Government, they did result in a diminution of guarantee available under the program.

(3) The USDA administrative review uncovered no evidence to suggest that there has been diversion of commodities to Iraq. The lack of "proof of arrival" in either bank or exporter records appears to be linked to the complexity of the shipment system that Iraq had to develop after its Basra closed during the height of the Iran-Iraq war. It appears on a review of sample records, that Iraq maintains records to establish proof of arrival for its GSM purchases.

(4) On several occasions during the period 1987-1991, state enterprises of the Government of Iraq appear to have requested "after sales services" from U.S. exporters, either in the form of requests for additional agricultural products, for non-agricultural products (e.g., truck parts or tires), for cash rebates or discounts, or for use of designated Iraqi shipping companies. Iraq has identified several exporters who apparently provided after sales service in response. That information has been turned over to USDA's Office of Inspector General for further investigation. Iraq's Deputy Minister of Trade has provided CCC with a letter confirming that the Government of Iraq has instructed all of its state enterprises not to request or accept after sales services in connection with any future GSM contracts.

(5) Iraq has also requested some exporters to assume responsibility for paying a domestic Iraqi "stamp tax" in connection with GSM transactions. Iraq's Deputy Minister of Trade has confirmed in a letter to CCC that Iraq has changed its policy and will, in the future, specifically exempt GSM transactions from application of this tax.

101st Congress
2d Session

JOINT COMMITTEE PRINT

COUNTRY REPORTS ON HUMAN RIGHTS PRACTICES FOR 1989

REPORT

SUBMITTED TO THE

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U.S. SENATE**

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Iraq is in effect a one-party state governed by the Arab Ba'ath Socialist Party (ABSP) through a Revolutionary Command Council (RCC) which has both executive and legislative authority under the provisional Constitution of 1968. Saddam Hussein holds decisive power as President of the Republic, Chairman of the RCC, and Secretary-General of the Regional Command of the ABSP. Two other small parties are essentially support groups for the Government. In 1989 the Government announced its intention to adopt a multiparty system enshrined in a new constitution. Elections for the National Assembly--which has few powers--were held April 1. A draft constitution which would reportedly allow a multiparty system was completed in 1989 and is expected to be put to a referendum in early 1990. It remains to be seen, however, whether this will dilute the monopoly of power held by Saddam Hussein and the ABSP. Iraq's population comprises many disparate groups, most notably Shi'a and Sunni Muslim Arabs, Kurds, Turcomans, and various Christian sects, predominantly Assyrians and Chaldeans.

Iraq's military is large and well trained, and parts of it, notably the Pursan, or Kurdish tribal levies, have responsibility for security within the Kurdish autonomous region. The National Police is responsible for civil order.

The Government exerts a high degree of control over the economy, dominated by the petroleum sector, and owns all major industries. The Government has been carrying out a program of divestiture and privatization in agriculture, tourism, services, and light industry, and is trying to attract investor capital and expertise in the operation of the economy. However, close government regulation of economic activity is expected to continue.

Iraq's human rights record remained abysmal in 1989. Effective opposition to government policy is stifled; the intelligence services engage in extensive surveillance and utilize extralegal means, including torture and summary execution, to deal with antiregime activity. The civil rights of Iraqi citizens continue to be sharply limited, and Iraqis do not have the right to change their government. The freedoms of speech and press and of assembly and association are virtually nonexistent. Other important human rights problems include continuing disappearances and arbitrary detentions, lack of fair trial, widespread interference with privacy, excessive use of force against Kurdish civilians, and an almost total lack of worker rights. In addition to the repressive domestic controls that predate the war with Iran, tight wartime controls, including travel restrictions, remain in effect despite the August 1988 cease-fire with Iran.

An armed Kurdish insurgency continued in 1989, but at a reduced level. Although there were no allegations that the Government used chemical weapons against Kurdish civilians in 1989, as it did in 1988, in its efforts to crush the rebellion, it continued to violate the human rights of elements of the Kurdish population. The Government announced in June that in its campaign to suppress the rebellion it has pursued a program since 1987 of establishing a depopulated security zone along the full length of Iraq's borders with Iran and Turkey. Under this program, the Government has destroyed villages within a 30-kilometer-wide zone and relocated approximately 500,000 Kurdish and Assyrian inhabitants into more easily controlled and protected towns.

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cities, and newly constructed settlements in traditional Kurdish areas.

RESPECT FOR HUMAN RIGHTS**Section 1 Respect for the Integrity of the Person
Freedom from:****a. Political and Other Extrajudicial Killing**

For years execution has been an established Iraqi dealing with perceived political and military opposition government, including, but not limited to, members outlawed Daw's organization (an Iran-supported fundamentalist Shi'a Muslim group that has engaged in acts of international terrorism). In some cases, a family only learns that its members has been executed when the security service return the body and require the family to pay a fine.

Amnesty International (AI), in its presentation before U.S. Subcommittee on the Prevention of Discrimination and Protection of Minorities in August, stated that it received allegations that some 80 army deserters were executed in December 1988 and charged that the Government executed some of its Kurdish opponents in March and April 1989.

In its February report, "Iraq: Children: Innocent Victims of Political Repression," AI stated that it receives reports of hundreds of executions in Iraq each year. AI cited the case of 29 Kurdish children and youths allegedly executed in January 1987. In addition, AI, in its 1989 Report, cited allegations that hundreds of civilians, including women and children, were executed at Tanjero Military Garrison, Sulaimaniya province. Independent information to confirm the allegations cited in AI reports is not available.

b. Disappearance

In the February report, AI asserted that thousands of people arrested over the years by Iraqi security or intelligence forces reportedly have "disappeared" while in detention, many feared executed. In its August presentation to the Subcommittee, AI reported the disappearance in mid-1988 of Mulla Muhammad Dalgay, described as the imam of Qal'at Diza who was among delegates from Kurdistan who reported to government officials to appeal against forced settlement of the Kurds at Qal'at Diza. He was reportedly arrested in Baghdad and has since disappeared. An Assyrian or Chaldean based in the United States charged in March that the whereabouts of 33 Assyrians, who took advantage of a amnesty issued by the Government and returned to Iraq from Turkey, were unknown.

c. Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment

The Constitution prohibits torture and prescribes punishment for it, but it is clear that both physical and psychological torture are used by the authorities, including the security police. Given the rigid chain of command within the Government and the security services, torture is practiced without the knowledge or authorization of high officials.

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Emigre groups and former prisoners assert that persons detained by the security police for political or security-related matters are frequently tortured and mistreated. Treatment is reported to be worst immediately following arrest and during the period of interrogation and investigation, which can last for months. Torture and brutal treatment are not limited to political cases.

Security-related offenses are broadly defined and include such routine criminal matters as currency violations.

In its 1989 Report, AI stated that the routine torture and ill-treatment of prisoners continued to be widely reported. It said the victims included detainees below the age of 18 who were reportedly beaten, whipped, given electric shocks, and deprived of food. The Government categorically denied any use of torture against children as an official policy or as a practice, and stated its readiness to consider fully any individual allegation with a view to bringing perpetrators to justice. Impartial observers have so far been unable to look into these allegations.

d. Arbitrary Arrest, Detention, or Exile

While the Constitution and legal code provide for the rights of citizens and place checks on police powers in such areas as arrest, detention, imprisonment, and search, these provisions have virtually no weight in political or national security cases, although they are generally respected in ordinary criminal cases. Security police not only make arbitrary arrests but also secretly detain suspects, whose fate sometimes becomes known only after they have been executed. Security charges have included espionage, treason, and conspiracy against Iraq, often in collaboration with unnamed foreign enemies.

The relocation of 500,000 Kurdish villagers to other areas of Kurdistan since 1987 may be considered a form of internal exile. The Government declared in June 1989 that it was creating an uninhabited security zone to ensure the safety and security of citizens in the border regions (who were subjected to shelling and military operations during the war with Iran) and to provide better services to the villagers.

Although the Government has ceased expelling Iraqis of supposed Iranian descent, most of the few remaining Iranians have been imprisoned or live under the fear of deportation or incarceration. Spouses of Iraqis of Iranian origin are required to obtain a divorce or suffer the same consequences. Moreover, other Iraqis, whose grandparents are shown not to be of Iraqi origin, are subject to arbitrary detention and deportation.

With regard to forced or compulsory labor, see Section 6.c.

e. Denial of Fair Public Trial

Iraq's legal system provides for investigation by police and then by an inquiry judge who may refer a case to the courts or dismiss it. Judges try criminal cases; there are no juries. Convictions may be appealed to the Court of Appeal and then to the Court of Cassation, the supreme court. There are no Shari'a courts per se in Iraq; however, family courts administer Shari'a law modified by Iraqi custom.

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Trials of ordinary cases are held in civil, criminal, and religious courts and are open. Defendants are entitled to counsel--at government expense if the defendant is indigent. Charges and evidence are available for review by the lawyer. Appellate courts hear cases not under the jurisdiction of the Revolutionary Courts.

In contrast to ordinary cases, security cases are handled by the Revolutionary Courts, which usually hold closed trials. Security cases include espionage, treason, smuggling, currency exchange violations and drug trafficking. The right of defense in such courts is said to be severely restricted. "special courts" constituted by the RCC for specific incidents, such as the reported conspiracy against the regime in 1979, are also closed. These special tribunals are apparently exempt from constitutional safeguards of defendants' rights; defendants are held incommunicado, and confessions extracted by torture are admissible. Appeals can be taken only to the chairman of the RCC. However, the utility of this appeal is questionable, since there are reports that executions take place shortly after trial.

Political dissent in Iraq is taken by the authorities to encompass a wide range of activities and, in an environment where public acknowledgement of arrest or imprisonment is rare, it is extremely difficult to estimate the number of political prisoners. In its 1989 Report, AI stated that "thousands" of political prisoners continued to be arbitrarily arrested and detained, especially members of prohibited political parties, Army deserters, and draft resisters. Relatives, including children of suspects, are said to be held as hostages to compel confessions.

f. Arbitrary Interference with Privacy, Family, Home, Correspondence

The Constitution provides protections for the inviolability of the home, and strong cultural values reinforce these protections. Police must obtain a search warrant before entering the home of a criminal suspect. However, warrants are not required for the arrest of security suspects. Although most arrests occur outside the home, there have been reports of forced entry and arrest by the security police, particularly of suspected members of the outlawed Da'wa organization.

Although the Constitution provides for the confidentiality of mail and telegraphic and telephone correspondence, many Iraqis believe that the monitoring of telephones is a common practice and that all mail is subject to review by censors. The security services and Ba'ath Party maintain a pervasive network of informers. The Government maintains a close watch against Iranian attempts to exploit dissatisfaction among Iraqi Shi'ites who adhere to the branch of Islam prevalent in Iran.

g. Use of Excessive Force and Violations of Humanitarian Law in Internal Conflicts

Elements of Iraq's Kurdish population have engaged in armed struggle with all governments of Iraq periodically since the 1920's. The outbreak of the Iran-Iraq war in 1980 sparked new antigovernment insurgency by Kurdish elements, many of whom fought with or aided Iran during the war. From 1981 to 1989, the Government's efforts to crush the rebellion militarily resulted in approximately 8,000 deaths, many of

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them civilians killed indiscriminately by chemical weapons in 1988.

Although the fighting was at a reduced level in 1989, Kurdish military operations continued, as did government measures to contain them. Kurdish rebels continued to announce their hostility towards the central Government. On August 29, 1989, the leader of one group of insurgents stated to the press in Geneva that his group would target foreign interests in Iraq supporting the Iraqi regime. At year's end, the cycle of Kurdish rebellion and government repression remained unresolved.

Section 2 Respect for Civil Liberties, Including:

a. Freedom of Speech and Press

The freedoms of speech and press are not respected. The Constitution prohibits "any act aimed at undermining the national unity of the people, provoking racial, sectarian, and regional bigotry, or violating gains and achievements of the country." The Government views political dissent as a threat to its security and strictly controls speech and all information media. All publications are subject to censorship. The Government and the Ba'ath Party own and operate the press, radio, and television. The media do not criticize the Government, and news reporting is strongly biased. There is no presentation of opposition viewpoints.

Few foreign periodicals reach Iraq and those that do may be censored. Western newspapers are not sold. Foreign visitors' magazines, newspapers, cassettes, cameras, and video cassettes may be confiscated at the airport. To control the dissemination of political leaflets, word processors and computers must be registered. Failure to register is a criminal offense. Iraqis no longer need to register their typewriters or photocopiers, but foreigners in Iraq must do so. Taking photographs of military installations, government buildings, or areas near sensitive locations is forbidden and punishable by imprisonment. Journalists and photographers visiting Iraq at the invitation of the Government are required to present film taken in Iraq for inspection by the authorities.

b. Freedom of Peaceful Assembly and Association

These freedoms are severely limited. Public meetings may only be organized under the auspices of the Government or the Ba'ath Party. Association for nonreligious purposes and demonstrations without government approval have met with severe repression. Professional organizations are subject to control by the Ba'ath Party Central Vocational Bureau.

For a discussion of freedom of association as it applies to labor unions, see Section 6.a.

c. Freedom of Religion

Iraq is an ethnically and religiously diverse society. Since its rise to power in 1968, the Ba'ath Government, while carefully controlling religious groups, has enforced tolerance of religious diversity, seeking to submerge religious differences in the promotion of secular nationalism. A 1981 law gave the Ministry of Endowments and Religious Affairs the authority to promulgate laws and regulations governing places

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of worship, appointment of clergy, publication of literature, and participation in religious council meetings. Muslim religious leaders operate under government supervision, are considered government employees, and receive their salaries through the Government. Government administers the principal Muslim shrine mosques and has provided allotments to them and to for maintenance and refurbishing. There are no penalties under Iraqi law for changing one's religion, although there is a social stigma for Muslims who convert to another religion.

While the Government has assumed much greater authority in Islamic religious affairs since 1981, it has been less intrusive into the religious affairs of Iraq's Christian community. There are more than 500,000 Christians and constitute nearly 4 percent of the population. Their freedom of worship in churches of established denominations is legally protected, but they are not permitted to proselytize or to hold meetings on church premises. Convents and monasteries exist, and churches have been constructed, in some cases with financial support. The Jewish community has decreased to 150,000 following World War II to under 400. There is no evidence of recent persecution. One synagogue is still functioning.

d. Freedom of Movement Within the Country, International Travel, Emigration, and Repatriation

Iraqis are generally free to travel within the country to change their residences or workplaces. However, they are likely to be constrained by social, cultural, and religious traditions which define the areas occupied by the various ethnic and religious groups. Sensitive border and security areas are off limits. There are police checkpoints on highways and outside major towns, but Iraqis and nondiplomatic foreigners travel freely in nonrestricted areas.

The Government's harsh campaign to suppress Kurdish nationalism involving mass relocations of Kurdish villagers, has limited the right of hundreds of thousands of Kurds to change place of residence. Since the Government began its forced relocation in 1987, an estimated 500,000 Kurds have been uprooted. Since traditional Kurdish culture is deeply embedded in the rural village, the forced relocation and razing of villages has had a destructive impact on the lives of some half a million Kurds.

Most foreigners who remain in the country for more than 90 days and all Iraqis must obtain exit permission. These have been severely limited since September 1986, when the Government imposed tight restrictions on currency exchange. These restrictions were eased somewhat in 1989, but the drain on the economy caused by the war and the need for permission to travel abroad is restricted to a few Iraqis, including officials, businessmen, government employees, approved students, and persons needing medical treatment. In 1989 the Government eased restrictions to permit visit his or her offspring who is studying or working abroad.

While permission for medical treatment abroad may be obtained, permission to transfer hard currency abroad to pay for treatment may not be. In cases of those desiring medical treatment in the United States, the Government now requires a bond from an American friend or relative with the Iraqi.

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Washington before exit permission is granted. The minimum amount of this bond is \$10,000. The Government sometimes limits the countries an Iraqi traveler may visit and, should the traveler visit a nonauthorized country, a small fine may be levied upon his return. Iraqis who have residences abroad may depart the country, provided they originally left before the war began. A married woman must have the permission of her husband to travel abroad.

The Government can require a prospective traveler to post a substantial bond to assure his return. The RCC decreed in 1987 that Iraqi students abroad who refuse to return to Iraq must reimburse the Government for all education received in Iraq or abroad at government expense. The decree is applicable retroactively to students who have refused to return since May 16, 1983, the date the Government began requiring employees leaving government jobs before 20 years of service to reimburse the State for the cost of their education. Amounts due can be recovered by confiscation; nonpayment may result in imprisonment. Each student must provide a guarantor before traveling abroad. This guarantor and the student's parents may be held liable if the student fails to return.

There is no specific ban on emigration or special restrictions for members of minority groups; however, emigration is discouraged. For the past several years, almost all of those given permission to emigrate have been Christian Iraqi wives of former Iraqi citizens now living abroad as citizens of another country. Prospective emigrants have had travel permission delayed and have been harassed. Many emigrants leave behind substantial property because of the difficulty of exporting assets. Currency exchange violations are considered national security offenses, and penalties can be severe.

Non-Iraqi spouses of Iraqi citizens who have resided in Iraq for 5 years are required to take Iraqi nationality or leave Iraq. Many people, including several Americans, have thus been obliged to accept Iraqi citizenship and are therefore subject to the present travel restrictions. In March 1984, an order by the RCC reduced the residency period before naturalization to 1 year for the spouses of Iraqi citizens employed in government offices. The Iraqi spouse faces penalties for noncompliance, including loss of job, a fine of approximately \$10,000, and repayment of the costs of education. Iraq does not recognize the concept of dual nationality, and many Iraqi "dual nationals," especially the children of an Iraqi father and a mother of non-Iraqi birth, have been denied permission to leave Iraq to visit the country of their other nationality.

In recent years, the Government has instituted special programs to encourage repatriation of qualified professionals. Aliens of Iraqi origin can apply for a document permitting them to enter and exit from Iraq without a visa.

Other persons of Iraqi origin are permitted to return, including many persons who were admitted to other countries as refugees. A number of such people, especially Assyrian Christians, have returned on temporary visits. They are free to come and go, within the limits of the present travel restrictions, since they are not considered to have violated Iraqi laws. However, those who emigrated only after the beginning of the Iran-Iraq war, including several U.S.

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permanent resident aliens, have been unable to do Iraq after returning. In September and November, February and March 1989, the Government announced for Kurds who fled the country for any reason. 12,000 have voluntarily returned from refugee camps.

Section 3 Respect for Political Rights: The Right to Change Their Government

Iraqi citizens do not have the ability peacefully change their government. President Saddam Hussein and the Iraq through the Ba'ath Party. It reportedly has 1 million adherents, representing about 9 percent of the population.

There are two other small legal political parties: Kurdish. They and the Ba'ath Party constitute the National Front and Progressive National Front, essentially a vehicle for support for the Government. Members of the military and security services may engage in political activities within the Ba'ath Party. Association with the party is required for appointment to senior government posts and military ranks or election to the National Assembly. Normally necessary to attain political influence, opposition groups, including various Kurdish groups and splinter groups, are severely repressed. The Communist Party was the National Front and declared illegal in 1979. The organization, a violent Shi'ite group, is still active and its members are subject to incarceration and are members of other parties believed to be cooperating with Iran. Plans the Government announced in 1988 to allow formation of opposition parties were not implemented.

General elections were held for the 250-seat National Assembly in April. Though in theory possessing a wide range of official duties, the Assembly exercises little real authority. The majority of the more than 900 candidates are independents, although all supported current government policies. The elections by secret ballot were marred in the past, and some high-ranking Baath party officials were defeated.

The biennial elections for the Legislative Assembly of the Kurdish Autonomous Region were held in September 1989. 174 candidates, from the three legal parties and independents, had to satisfy the same requirements as National Assembly candidates. The Legislative Assembly does not exercise meaningful authority.

In October 1989, an Experts Commission finished drafting a new Constitution to replace the Provisional Constitution. Iraqi officials assert that the new Constitution will provide more guarantees of human rights. However, the new Constitution has not yet been made public pending approval by President Saddam Hussein and the RCC.

Section 4 Governmental Attitude Regarding International and Nongovernmental Investigation of Alleged Violations of Human Rights

The Government allows one human rights group to operate in Iraq, but this is largely under government control. The Government has rarely cooperated with private foreign human rights groups.

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or international organizations in investigating events or practices in Iraq.

The Government denies charges that it violates human rights, and claims that the information on which AI and other human rights groups base their charges comes from pro-Iranian and Kurdish Iraqi exile groups in London and Paris. In its 1989 report on children in Iraq, AI cited several instances in which Iraqi authorities had commented on AI reports or responded to AI inquiries, but in each case these authorities had defended the Government's actions as justifiable or denied the accuracy of AI's information. A resolution before the U.N. Subcommittee on the Prevention of Discrimination and Protection of Minorities in August 1989, recommending that the U.N. Commission on Human Rights study the human rights situation in Iraq, was narrowly defeated.

Iraq does cooperate with the International Committee of the Red Cross in efforts to resettle Iranian civilian refugees in third countries, and the U.N. High Commissioner for Refugees has had a permanent representative in Iraq since April 1988 who registers Iranian refugees and works for their resettlement.

Section 5 Discrimination Based on Race, Sex, Religion, Language, or Social Status

The Ba'ath Party is committed to the equality of the sexes, and a series of laws since it came to power in 1968 has steadily improved the status of women. There have been laws to protect women from exploitation in the workplace; grant subsidized maternity leave; permit women to join the regular army, popular army, and police forces; and equalize women's rights in divorce, land ownership, taxation, suffrage, and election to the National Assembly. In the 1970's, the Government imposed legal penalties on families that opposed sending their women to literacy schools, and on men who were seen harassing women. While the application of these laws has resulted in significant tangible improvements for women, a number of problems remain. Married women may still travel abroad only with the permission of their husbands. School enrollment of females has been increasing in recent years, reaching 45 percent in elementary schools and 36 percent in secondary schools in 1985-86.

Women represent about 47 percent of agricultural workers and about 25 percent of the total work force. The war accelerated the Government's drive to elevate the status of women, and it appears to have significantly reduced, if not removed, barriers to the acceptance of women in traditional male roles. Women are increasingly employed as architects, construction engineers, oil engineers, air traffic controllers, and factory and farm managers. Their role in the armed forces is limited to the medical field.

Violence against women, such as wife beating and rape, is known to occur but little is known about its extent. Such abuse is customarily dealt with within the tightly knit Iraqi family structure because of the value attached to personal privacy in this conservative society. Consequently, there is no public discussion of the subject, and there are no official statistics. Excessive violence against women would be grounds for divorce and criminal charges, but suits brought on these charges in Iraq are believed to be rare.

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The use of minority languages is unrestricted. The official language used in schools and media in Kurdistan is Turkish, and often use Aramaic as well as Arabic.

The Shi'a, who make up roughly 55 percent of the population, have historically been economically, politically, and socially disadvantaged throughout much of the Middle East. The Government has a declared policy to raise their living standards and equalize opportunities for their economic and professional advancement. For four centuries, power in Iraq has been concentrated in the hands of the minority. Sunni Arabs, who comprise 20 to 25 percent of Iraq's population, dominate the RCC, the Regional Command Council, the Ba'ath Party, and the Cabinet. However, increasing numbers of Shi'as hold prominent positions, and the status of the Shi'a has improved through intensive investment in the economic and educational infrastructures of southern Iraq.

Although Christians sometimes allege discrimination in education and jobs, adherence to their religion has prevented many from obtaining wealth and professional advancement. The Deputy Prime Minister and Foreign Minister, a Chaldean Christian, has represented Iraq at meetings of foreign ministers of the Organization of the Islamic Conference. Other Christians hold important official and private positions.

Citizens considered to be of Iranian origin carry identification. They are often precluded from government employment and their advancement may be impeded. "Iranian" families have been in Iraq for generations. The holiest shrines of Shi'a Islam, the prevalent sect, are located in Iraq. For generations Iraqis have made Hajj and Karbala on pilgrimage or to study in them, and many settled there. Some "Iranians" say they were not from Iran but claimed Iranian nationality under Ottoman military conscription.

Section 6 Worker Rights**a. The Right of Association**

Trade unions independent of government control do not exist in Iraq. Under the trade union organization law of 1975, a new single trade union structure was prescribed for organized labor. Workers in private and mixed enterprises--but not public employees or work enterprises--have the right to join a local union. The committees form trade unions which in turn are provincial trade union federations. At the top of the organization, the Iraqi General Federation of Trade Unions, which is organically linked to the Ba'ath Party, exists to promote party principles and policies among unions. The General Federation is affiliated with the International Confederation of Arab Trade Unions and the Communist World Federation of Trade Unions. It is also active in the tripartite Arab Labor Organization, headquartered in Baghdad.

Although workers legally have the right to strike providing notice to the Labor Ministry, no such strike was reported in 1989. There was a 1-day wildcat walk by Egyptian workers protesting excessive work hours.

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The right to bargain collectively is not recognized. Salaries for public sector workers (i.e. the bulk of the employed) are set by the Government. Wages in the private sector are set by the employers or negotiated individually with workers.

Iraq, which has ratified International Labor Organization (ILO) Convention 98 on the Right to Organize and Bargain Collectively, was criticized by the ILO's Committee of Experts (COE) in 1989 for the fact that its new labor code of 1987 fails to provide workers with protection against antiunion discrimination. The COE also expressed regret that the 1987 Act on trade union organizations did not provide for collective bargaining.

There are no export processing zones in Iraq.

c. Prohibition of Forced or Compulsory Labor

Although compulsory labor is prohibited by law, during and shortly after the war with Iran the Popular Army, the militia of the Ba'ath Party, employed press-gang methods to draft recruits. However, these activities ceased in November 1988, and the Popular Army was for the most part demobilized in 1989.

ILO supervisory bodies again in 1989 expressed concern that the Penal Code permits the punishment of civil servants with imprisonment, including compulsory prison labor, for breaches of labor discipline, which include resigning from one's job. A November cabinet meeting, reported in the government-directed press, quoted the remark of a minister that resignation from government jobs should be free, confirming that heretofore civil servants have had to buy their way out of government service.

d. Minimum Age for Employment of Children

Children are frequently encouraged to work as necessary to support the family, but the employment of children under age 14 is forbidden in all enterprises other than small-scale family enterprises. Children between the ages of 14 and 18 who are employed are protected by law: they work fewer hours and have more privileges than adult workers.

e. Acceptable Conditions of Work

The workweek in urban areas is 6 days, 7 to 8 hours a day, for workers in the private and mixed sectors. These provisions do not apply to agricultural workers whose workweek and hours of work per day can vary according to individual employer-employee agreements. Hours for government employees are set by the head of the ministry for which the employee works. Many government employees routinely work longer than 8 hours a day, some of them as much as 12 hours per day.

Occupational safety programs are in effect in state-run enterprises, and inspectors make visits irregularly to private establishments. Enforcement varies widely. A government decree to extend occupational safety and health protection was issued and subsequently withdrawn in December 1988, reportedly resulting in the dismissal of the Labor Minister.

A special problem arose after the Government decided in June to reduce drastically the amount of hard currency foreign

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workers could remit. It is widely believed that Government took this measure to "encourage" foreigners to leave the country, thus freeing jobs for demobilized soldiers. Workers not on contract were particularly hit. Most of the over 2 million Egyptian workers in Iraq are manual laborers. When they learned they would be able to transfer only \$32 per month, they began to leave in droves, an estimated 2,000 per day by air alone. Other foreign workers in Iraq have claimed that employers forced them to work 12 to 15 hours a day for 4 hours' pay or refused to pay wages. The Government admitted that Iraqi banks have been slow to pay Egyptian workers and that they are in fact receiving their salaries after leaving Iraq.

**AMNESTY
INTERNATIONAL
REPORT**

1989

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Large numbers of Kurds and other government opponents were extrajudicially killed by Iraqi Government forces. Among the victims were whole families, including children. Thousands of political prisoners, among them prisoners of conscience, continued to be arbitrarily arrested and detained. Many were held for long periods without trial or following summary trials. Torture of political prisoners remained widespread, as did the "disappearance" of large numbers of people, many of whom, it was feared, had

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been killed. Hundreds of people were reportedly executed; in most cases it was difficult to ascertain whether they had been tried and sentenced to death or extrajudicially executed.

In July the Iran-Iraq war came to an end. In the months before the ceasefire Iraqi Government forces had carried out a series of attacks on Kurdish civilians, including in areas in which the Kurdish armed opposition was active. In the weeks following the ceasefire there were similar sustained attacks on Kurdish civilians, thousands of whom fled Iraq to neighbouring countries.

In January an amnesty was declared for army deserters and for those who failed to report for military service, and in April there was a further amnesty for detainees convicted of certain economic and political offences and, under certain circumstances, of robbery and desertion from the army. Three amnesties were declared in September for detainees convicted of certain criminal and political offences, for all Iraqi Kurds sought for crimes committed before 6 September 1988, and for Egyptian nationals convicted of criminal offences excluding drug-trafficking and premeditated murder. In November a general amnesty was declared for those wanted for or convicted of political offences. It was not known how many people benefited from these amnesties.

Over 6,000 people, the majority unarmed civilians, were reported to have been deliberately killed by government forces and information was received about the deliberate killing of hundreds of others in 1987. Many were victims of extrajudicial execution; the great majority were Kurdish civilians, including whole families, killed as a result of large-scale military attacks on civilian targets. Amnesty International believed these killings were part of a systematic and deliberate policy on the part of the Iraqi Government to eliminate large numbers of Kurdish civilians, both as punishment for their imputed political sympathies and in retaliation for the activities of Kurdish opposition forces, which have included armed attacks on Iraqi Government targets.

Some 400 Kurdish civilians, among them women and children, were reported to have been executed on 2 April at Tanjero Military Garrison, Sulaimaniya province. The victims were said to have been

wounded as a result of chemical weapon attacks on villages in the Qaradagh region in March, and to have been apprehended as they made their way to the city of Sulaimaniya to seek medical treatment. Information was also received that in April 1987 some 360 people from the village of Shaikh Wasanan, Arbil province, had been detained, reportedly after seeking medical treatment in hospitals in the city of Arbil for wounds inflicted as a result of chemical weapon attacks in the Ballisan Valley in mid-April 1987. The majority were civilians said to have "disappeared" after being moved to an unknown destination outside the city. There were allegations, which Amnesty International was unable to confirm, that they had been executed.

On 16 and 17 March an estimated 5,000 people were deliberately killed and thousands wounded as a result of chemical weapon attacks by Iraqi forces on the town of Halabja, Sulaimaniya province, reportedly after Kurdish opposition forces had entered the town. Most of the victims were civilians, many of them women and children. The government denied responsibility for the incident and stated that Iranian forces had carried out the killings. In August hundreds of unarmed Kurdish civilians were deliberately killed and thousands wounded when Iraqi Government forces attacked Kurdish villages in the north. Thousands of Iraqi troops were reported to have launched attacks using tanks, helicopter gunships, artillery and chemical weapons on hundreds of villages in the provinces of Duhok, Mosul and Arbil. The offensive came in the wake of the Iranian Government's acceptance of a ceasefire in its conflict with Iraq. On 28 August Iraqi Government forces reportedly entered several villages near the town of Duhok and arrested over 1,000 people, some of whom were suffering from wounds sustained in chemical weapon attacks. Those detained were allegedly summarily executed and then buried in mass graves nearby.

In late August and early September tens of thousands of villagers fled the affected areas to seek refuge in Turkey and Iran. On 1 September the Turkish Government announced that it would grant temporary refuge on humanitarian grounds to some 57,000 Kurdish civilians. The Iraqi Government denied that chemical weapons had been used against Kurdish civilians

and refused a United Nations team permission to travel to Iraq to investigate reports that such weapons had been deployed.

In January the Shi'a opposition leader Sayyid Mahdi al-Hakim was assassinated by a gunman in the lobby of the Khartoum Hilton Hotel, Sudan. The Sudanese authorities began an investigation into the killing amid allegations that Sayyid Mahdi al-Hakim was killed by an agent working for the Iraqi Government. According to a Sudan News Agency (SUNA) dispatch of 22 July, the investigation revealed that the escape car used by the gunman belonged to the Iraqi Embassy in Khartoum, and that eye-witness descriptions of the suspect implicated a diplomat at the embassy. The SUNA dispatch went on: "In view of this suspicion, the Public Prosecutor addressed a letter to the Iraqi Minister of Justice on 13th January 1988 requesting him to lift the immunity on the diplomat concerned so he could be interrogated." In February this request was refused and Iraq later recalled its Ambassador to Sudan in protest at the allegations.

As in previous years hundreds of executions were reported but it was not possible to ascertain the precise number. Those executed were said to have included members of banned political parties, other suspected government opponents, and army deserters. Many were reported to have been executed without charge or trial, among them five members of the Kurdistan Socialist Party-Iraq (KSP-I) executed in Arbil between November 1987 and January 1988. The bodies of four of them were returned to their families bearing marks of torture. The body of the fifth was allegedly buried secretly in a cemetery in Arbil. In December some 80 people were reported to have been executed in the Koi Sanjaq region of Arbil province. The majority of the victims were said to be army deserters arrested in mid-1988. It was not known whether they were brought to trial before execution.

Thousands of political prisoners, including possible prisoners of conscience, continued to be detained without charge or trial, or after summary trials. They included actual or suspected members of prohibited political parties such as al-Da'wa al-Islamiyya, Islamic Call; the Iraqi Communist Party (ICP); the Kurdistan Democratic Party (KDP); the Patriotic Union of Kurdistan (PUK); the Kurdistan

Socialist Party-Iraq (KSP-I); and the Kurdistan Popular Democratic Party (KPDP). Others included army deserters and resisters. Relatives of such people were arrested as hostages in lieu of suspects being sought by the authorities. The children of political opponents were also rarely arrested and detained as hostages in order to compel their parents or relatives to "confess" to alleged political offences.

Mirza and Mardan Rashed, two brothers arrested in July 1985 in al-Shaikhan, were aged six and 13 respectively and were believed still to be in detention at the end of the year. They were reportedly arrested because of their father's suspected membership of the Pesh Mergo (armed Kurdish units). In mid-December some 200 military personnel and PDP Party officials were reportedly arrested in Baghdad and Mosul, on suspicion of plotting a coup. They included brigadier generals - 'Abd al-Ghani Shalabi and Taleb 'Ali al-Sa'dun. At the end of the year their fate was unknown.

Routine torture and ill-treatment of prisoners continued to be widely reported. The victims included political prisoners tortured in order to force them to "confess" or to renounce their political affiliations. Some political prisoners were reported to have been tortured daily before being executed. The victims included detainees below the age of 18, who were said to have been beaten, whipped, sexually abused, given electric shocks and deprived of food. According to the testimony of a former prisoner released from Abu Ghraib Prison in 1988, few prisoners have also been hung upside down by the feet during menstrual periods. Objects have been inserted into the ginas of young women, breaking the bones of the men. Another detainee released from Abu Ghraib in September testified that he was tortured during 14 months spent in detention. Arrested on suspicion of working with the KSP-I Pesh Mergo, he was allegedly beaten, given electric shocks and made to face a mock execution.

The fate of some 178 people who "disappeared" while they were in detention between 1980 and 1985 was still unknown at the end of the year (see Amnesty International Report 1988). Among them 17 children aged between 12 and 17, 11 belonged to Shi'a families from regions such as Baghdad, Karbala' and Najaf.

were declared by the authorities to be of Iranian descent. The fate of some 8,000 Kurds, among them 315 children, who "disappeared" following their arrest in August 1983, was still unknown. All were male members of the Barzani clan, arrested in Arbil and sent to unknown destinations. It was believed that the arrests had been carried out in retaliation for the KDP's military activities: the detainees included close relatives of Mes'ud Barzani, leader of the KDP. It was feared that many had been executed.

Amnesty International repeatedly appealed to the government for an end to the deliberate killing of unarmed Kurdish civilians. It also expressed concern about the imposition of the death penalty and about allegations that some of those executed had been tortured before their death. In January Amnesty International urged the government to investigate reports of the security forces' use of thallium poison against political opponents (see Amnesty International Report 1988). There was no response from the government on the poisonings but in press reports Iraq's Ambassador to the United Kingdom described the allegations as "false" and "bizarre". In August, the government replied to appeals by Amnesty International regarding the reported execution and deliberate killing of some 360 people - including 17 children - in November and December 1987 (see Amnesty International Report 1988). The government confirmed the execution of 12 people among the 116 victims whose names were submitted by Amnesty International. One of the 12 was 16-year-old Ribwar Muhammad Karim 'Aziz, a Kurd from Sulaimaniya who had been arrested when he was 13. He had been sentenced to death by a special court and executed in Abu Ghraib Prison in December 1987.

In an oral statement delivered to the United Nations Commission on Human Rights in March, Amnesty International drew attention to reports of the execution and deliberate killing by Iraqi forces of some 360 people in November and December 1987. In another oral statement delivered in August to the United Nations Sub-Commission on Prevention of Discrimination and Protection of Minorities, Amnesty International explained its concern about the deliberate and systematic killing of unarmed Kurdish civilians by

government forces. An Iraqi Government representative responded: "with respect to the town of Halabja, my delegation makes clear that this town was the site of military operations, and that it was occupied during these operations by Iranian troops which used various weapons, including chemical weapons, against its Iraqi civilian inhabitants".

In September Amnesty International appealed to the UN Security Council to act immediately to stop the massacre of Kurdish civilians by Iraqi forces. The appeal was issued following the reported killing of hundreds of unarmed civilians in Kurdish villages at the end of August. In October Amnesty International called on the Turkish Government to allow international protection for thousands of Iraqi Kurdish refugees in Turkey who had fled the August offensive. The call followed an Amnesty International fact-finding visit to refugee camps in southeastern Turkey in early October and reports that some refugees had been threatened with forced repatriation to Iraq. Some 1,900 Kurds were reported to have returned from Turkey to Iraq after the Iraqi Government's announcement of an amnesty for Kurds on 6 September. At the end of the year their fate was unknown.

In May Amnesty International submitted information about its concerns in Iraq to the United Nations procedure (under Economic and Social Council Resolutions 728F/1503) for confidentially reviewing communications about human rights violations. A copy of the communication was also sent to the Iraqi authorities with an invitation to comment. At the end of the year no response had been received from the Iraqi Government.

PATTERNS OF GLOBAL TERRC



Iraq

Iraq was removed from the US list of state sponsors of terrorism in 1982. Since the expulsion of the ANO in 1983, Iraq has continued working to improve its international image. Iraq did not sponsor any known acts of international terrorism in 1989. Iraq has continued, however, to provide safehaven to some Palestinian groups, including the Iraqi-created Arab Liberation Front and Abu Abbas's Palestine Liberation Front, responsible for the 1985 Achille Lauro hijacking and killing of an American passenger. In addition, press reports indicate that Abu Ibrahim, the former leader of the now defunct 15 May terrorist organization, has returned to Iraq. Abu Ibrahim is known for the skill with which he built highly sophisticated and lethal suitcase bombs. Iraq continues to support anti-Iranian dissident groups including Mujaheddin-e-Khalq (MEK).

There have been questions in the Turkish media about possible Iraqi support for the terrorist Kurdish Worker's Party (PKK). The Iraqi Government maintains it works effectively with the Turkish Government at the local level on the border as well as on a government to government basis to significantly reduce PKK violence. A major failure was the December 1989 PKK massacre of Turkish villagers near the Iraqi border.

**COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS
PRODUCTS RELATED TO THE BNL INVESTIGATION**

**A. TESTIMONY GIVEN BY CHAIRMAN HENRY B. GONZALES ON THE
BNL-IRAQI SCANDAL**

June 2, 1992; Testimony before the Committee on the J
on the issue of appointing an independent counsel or
related to Iraq

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the Justice Department concerning national
concerns of the BNL investigation. State De
letter stating that there were no national
concerns.
3. Examples of redactions to Federal Reserve doc
requested by the House Banking Committee.
4. Waivers for Cabinet officials involved in
decisions in response to Iraq's invasion of Kuw

(printed by the House Judiciary Committee)

October 27, 1992; Testimony before the Senate Comm
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List of attachments:

1. Document on U.S. Nuclear Export Policy Towards
2. Iraqi Weapons Complexes and Government Procurement
3. Iraqis Train for Nukes in the U.S.
4. Chairman's floor statement of July 27, 1992,
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7. BNL Financed U.S. Exports for Condor II Ballistic
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8. BNL Money Funds Cannon Project at Taji Steel Co
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10. BNL's Loans to Iraq - Option C
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(printed by the Senate Banking Committee)

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- C. HEARINGS BEFORE THE COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS REGARDING THE BANCA NAZIONALE DEL LAVORO SCANDAL (available from the U.S. Government Printing Office)
1. October 16, 1990; Banca Nazionale del Lavoro affair and regulation and supervision of U.S. branches and agencies of foreign banks, Serial No. 101-78.

2. April 9, 1991; Banca Nazionale del Lavoro (BNL), Serial No. 102-17.

3. April 17, 1991; Iraqi and Banca Nazionale del Lavoro participation in Export-Import programs, Serial No. 102-21

4. May 8, 1992; Non-proliferation of weapons of mass destruction and regulatory improvement act of 1992 (to be printed)

5. May 21, 1992; The National Advisory Council on International Monetary and Financial Policy (NAC) and the Department of Agriculture's (USDA) administrative review of the Banca Nazionale del Lavoro (BNL) scandal (to be printed)

6. May 29, 1992; The interagency lawyers group established by the White House relating to the congressional investigations of U.S. pre-invasion policy towards Iraq (to be printed)

D. **STAFF REPORT OF THE COMMITTEE ON BANKING, FINANCE, AND URBAN AFFAIRS REGARDING THE BANCA NAZIONALE DEL LAVORO SCANDAL**
(available from the U.S. Government Printing Office)

1. February 1991; The role of Banca Nazionale del Lavoro in financing Iraq, the failure of the Federal Reserve under the federal "umbrella" bank regulatory structure and interference by the state of Illinois.

MAY 21 1990

REPORT

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TO: Richard T. Crowder
Under Secretary for International Affairs & Commodity Programs

Alan Charles Raul
General Counsel

FROM: Kevin J. Brosch
International Affairs & Commodity Programs Division,
Office of the General Counsel

F. Paul Dickerson,
General Sales Manager and Associate Administrator,
Foreign Agricultural Service

Lawrence T. McElvain
Director, CCC Operations Division, Foreign Agricultural Service

RE: USDA Administrative Review of Iraq GSM-102 Program.

This report summarizes the findings and conclusions to date of an administrative review, conducted by the U.S. Department of Agriculture and the Commodity Credit Corporation (hereinafter "USDA"), of certain aspects of the Export Credit Guarantee (GSM-102) program for Iraq. This administrative review was undertaken in response to allegations that surfaced as a result of the investigations of the Atlanta, Georgia agency of Banca Nazionale del Lavoro (BNL) regarding possible irregularities in the GSM-102 program for Iraq. The USDA administrative review has involved review of BNL records on GSM-102 transactions; review of CCC records; review of a specific and limited number of exporter records; telephone interviews with several companies involved in the agricultural export trade; and discussion with officials of the Government of Iraq and its various state purchasing enterprises, and review of Iraqi records, during a visit to Baghdad on April 18-22, 1990. This review was not intended to be a comprehensive study of all past GSM-102 transactions with Iraq; rather, it focused on a limited set of transactions and issues that were identified as a result of the BNL investigation in Atlanta.

This report includes description of: background information about the GSM-102 program generally, and the Iraq GSM-102 program in particular; USDA's preliminary review of specific bank and exporter records; information obtained as a result of USDA's April 18-22 visit to Baghdad; and findings with respect to

certain issues about the conduct of the Iraq GSM-102 program raised by the BNL affair.

BACKGROUND

The GSM-102 Program for Iraq

The Export Credit Guarantee Program (GSM-102) was developed administratively by the Commodity Credit Corporation in 1980, pursuant to the authority granted under section 5(f) of the CCC Charter Act. That provision directs CCC to "Export or cause to be exported, or aid in the development of foreign markets for, agricultural commodities...." 15 U.S.C. 714c(f). Program regulations were promulgated and are codified at 7 CFR Part 1493. Currently, section 1125 of the Food Security Act of 1985 mandates that CCC make available not less than \$5 billion annually in export credit guarantees under this program. Since the program began in 1980, approximately 40 foreign countries have participated.

Under GSM-102, the CCC helps to make available private credit, on deferred payment terms of three years or less, by guaranteeing repayment of loans made for export purchases of U.S. agricultural commodities. At the beginning of each fiscal year, the CCC develops a list of participant countries based on information obtained through the trade, from the Foreign Agricultural Service, and from interested trading partners. In general, countries eligible to participate are those which are unable to purchase U.S. agricultural commodities in the cash markets, but are interested and able to purchase those commodities if short term credit is made available.

CCC then allocates the target guarantee amount among those countries, and establishes specific "lines" of credit guarantees by commodity. These country and commodity plans are presented for review to an interagency group, the National Advisory Council on International Fiscal and Monetary Policies ("NAC").

After country allocations and commodity lines have been set, they are announced publicly to the trade. An exporter who seeks a CCC guarantee must conclude a firm sale for a commodity with the a purchaser in a participant country. The purchaser must agree to purchase the commodity on credit terms of three years or less, with payment to be made under a foreign bank letter of credit issued by a CCC-approved banking institution in that foreign country. If, at the time the exporter seeks to register its sale, there is a sufficient guarantee amount available and the sale meets regulatory requirements, the CCC issues a payment guarantee. The exporter may then assign its proceeds of sale and the right to payment under the CCC guarantee, to a U.S. financial institution.

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In the case of a payment default under the foreign bank letter of credit, CCC will pay the exporter or its assignee 98 percent of the principal amount due, and up to 4 and 1/2 percent interest. When it makes payment under a guarantee, CCC takes rights of subrogation, thus permitting it to pursue the claim against the defaulting bank or against the foreign country.

Iraq began participating in the GSM-102 program in 1983, shortly before formal diplomatic relations with Iraq, which had been severed in 1967, were reestablished. In the first year in which Iraq received guarantee allocations under GSM-102 program, approximately \$214.7 million in sales of agricultural commodities to Iraq were guaranteed by CCC. Program levels increased each year thereafter, reaching a high of \$1.051 billion in FY 1989. For FY 1990, program levels were set at \$500 million and, to date, nearly all of that line has been registered for guarantees with CCC.

For the first four years of the program, CCC registered the value of sales of Iraq under the GSM program on the basis of the commodity value, FOB U.S. port. In late 1987, in response to requests by exporters serving that market to accommodate the need for freight financing of agricultural sales, USDA changed its policy to permit exporters to register their sales to Iraq on the basis of the C&F values. The GSM regulations were amended to reflect this change in policy.

The ENL Investigation

In August, 1989, the Office of the United States Attorney for the Northern District of Georgia was told that officials at the Atlanta branch of Banca Nazionale del Lavoro (BNL) allegedly had been conducting a clandestine "greybook" loan operation, and had booked more than \$2 billion in unauthorized and unreported loans to Iraq. This information led to the issuance of search warrants, FBI inspection of BNL bank records and initiation of a grand jury investigation under the auspices of the Office of the United States Attorney.

USDA became involved in the investigation when federal investigators and banking officials determined that approximately \$750 million of the greybook loans resulted from assignments of letter of credit proceeds for agricultural sales in conjunction with export credit guarantees issued by the Commodity Credit Corporation (CCC) under its GSM-102/103 programs. Investigators with USDA's Office of the Inspector General (USDA-OIG) began assisting the U.S. Attorney's investigation in early September, and have continued to work on the case since that time.

The BNL investigation has proceeded in the grand jury since that time. Indictments have yet to be returned. The specific

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theories being pursued by the United States Attorney, the identity of targets of that investigation, and the evidence developed are protected by the rules pertaining to grand jury secrecy and that information has not been available to USDA.

In late September, 1989, questions were raised about possible irregularities in connection with the GSM-102 program for Iraq. These questions were apparently motivated by the large amount of CCC business that was conducted by BNL-Atlanta, as well as allegations that Atlanta-branch BNL officials may have received payments from exporters who export sales included some agricultural financed with the assistance of CCC export loan guarantees. Upon learning of these rumors, USDA officials sought additional information, and consulted with USDA-OIG officials in Atlanta.

USDA ADMINISTRATIVE REVIEW

Initial Information Received: Review of BNL Bank Records

On Thursday, October 5, 1989, USDA officials in Washington were briefed on the current status of the BNL investigation by a USDA-OIG investigator from Atlanta who was assigned to that case. USDA officials learned that the investigation centered on possible bank fraud in the arrangement of large amounts of undisclosed loans, and bank reporting violations. The investigation was also looking into possible kickback payments, questionable "consultant payments", and other irregularities. While the investigator was not aware of any specific irregularities affecting the GSM program, he cautioned that the investigation was at a very early stage and noted the large amount of GSM loans in the BNL portfolio.

USDA personnel from the Foreign Agricultural Service (FAS) and the Office of the General Counsel (OGC) were dispatched to Atlanta to gather additional information.

On the afternoon of October 11, 1989, and a week later on October 18-19, USDA personnel also visited the BNL offices in Atlanta and reviewed records of GSM guaranteed transactions in the BNL files. This review was conducted pursuant to USDA's regulatory authority to review exporter and assignee records, in accordance with the provisions of 7 CFR Part 1493. They were able to review approximately 50 GSM files and associated letter-of-credit files, and spoke with both USDA-OIG investigators and with bank examiners from the Federal Reserve.

In this initial review, USDA officials focused on several potential problem areas:

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- o possibilities that GSM exporters that made sales to Iraq may have made personal payments in cash to officials of the BNL Atlanta branch.
- o apparent lack of documentation in the BNL files demonstrating that agricultural commodities shipped to Iraq under the GSM program arrived in Iraq.
- o suspicions that exporters doing business with Iraq through BNL might have received high prices and made unusually high profits;
- o possibilities that GSM exporters were being required to provide additional goods or to rebate money, as so-called "after sales service", in connection with their export sales to Iraq.

During the same time period, USDA attorneys also interviewed officials of one exporter who had complained, independent of the BNL matter, about requests from Iraq for so-called "after sales service" in connection with GSM sales.

As a result of those discussions, interviews and document reviews, USDA attorneys made the following evaluations about the evidence then available regarding possible irregularities in connection with the GSM credit guarantee programs:

- (1) "Exporter Payments to Bank Officials." There was no evidence of any payments to bank officials in the GSM files examined.
- (2) "Arrival of Commodities at Destination." There was no specific evidence of any GSM shipment having been diverted prior to reaching Iraq. The concerns about arrival at destination appeared to have stemmed from the lack of shipping documents, bills of lading, or landing certificates in the BNL files that would have demonstrated conclusively that the commodities entered Iraq. Indeed, it appeared at first that many files were missing any bill of lading documents whatsoever.

While the USDA attorneys were in Atlanta, however, they were able to determine, along with the OIG investigators, that the lack of ocean bills of lading in the files being reviewed had resulted from a misunderstanding on the part of a paralegal who was xeroxing requested files. After discovering this problem, USDA attorneys were able to obtain copies of the original document files for a number of GSM-guaranteed trades and found that those files uniformly contained ocean bills of lading for shipment either to Aqaba, Jordan or to ports in southern Turkey. Because the Iraqi gulf port of Basra has been closed by war damage, all of the GSM shipments were being delivered to either Jordanian or Turkish ports, and then to be trucked overland by the Iraqi Ministry of Transportation to Iraq. From review of the files, it

appeared to have been the practice of the parties to negotiate documents based on the ocean bills of lading alone or, in some cases, based on the ocean bills of lading along with a beneficiary's "certificate" that the goods were being delivered overland to Baghdad. In a number of cases, the exporters provided such certification within a few days after the ocean carrier on board bill of lading date, and BNL accepted these certifications when negotiating documents. Few files contained documents evidencing overland shipment. However, there was no affirmative evidence that arrival in Iraq had not occurred.

(3) "High Prices." Suspicions with respect to high prices appeared to have been based on comparisons of prices among several trades, or, in one case, by comparison of sale prices to invoice prices for supply. To that point, no rigorous study had been made evaluating the price levels observed in the file records against prevailing market prices at the time of the transactions. USDA attorneys reviewed the files and gathered examples of reported transaction prices, and determined that proper evaluation could not be made without additional research into market price levels for the period under review. USDA attorneys, working with the USDA commodity divisions, subsequently developed price series for eight major commodities to permit a better evaluation of this issue.

(4) "Required Consultant Fees." No documentary evidence was found in any of the files reviewed to indicate that GSM exporters were asked, or required, to pay special consultant fees in connection with Iraqi sales. USDA attorneys concluded that evidence of such payments may have been developed with respect to sales of non-agricultural goods, leading investigators to search for similar arrangements in connection with GSM sales. However, there was no apparent evidence of this practice with respect to agricultural sales at that time.

(5) "After-Sales Service." The question of after-sales service requirements had not apparently arisen out of the BNL investigations. Rather it been brought to USDA's attention in complaint letters from several exporters during the same time that the BNL investigation was starting. USDA attorneys attempted to follow up on this issue as well. One of the complaining exporters met with USDA attorneys to discuss the matter.

Essentially, the exporter reported that it had first been approached early in 1988 by Iraq and asked to ship, free of charge, additional non-agricultural goods (primarily truck parts and tires, and air conditioning equipment), as "after-sales service" in connection with GSM sales. It did not comply with the request for non-agricultural extras. The exporter stated that it was approached again by Iraq early in 1989 about the use of certain carrier for any shipments made under GSM. Because the exporter had bid the contract on a C&F basis, it had already

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contracted for its freight carrier, and so notified Iraq. Apparently, it also told Iraq that it did not feel the Iraqi recommended carrier could be price competitive. For several months Iraq pressed the matter through a series of telex messages and, in fact, submitted a price quotation. Finally, after the exporter informed Iraq that the freight bids proffered were not at all competitive, and that, moreover, it could not ship the products in manner suggested, the issue was dropped.

The exporter was again approached in August of 1989 by Iraq through a "broadcast" telex (presumably sent to all Iraq GSM exporters) for after-sales service through provision of trucks and related transportation equipment. The exporter stated that it ignored this request, and sent a copy of the telex to USDA asking for intervention to end this Iraqi practice.

Based on this information, USDA raised this issue shortly thereafter with Iraqi representatives in meetings both in Washington and Baghdad during October and November 1989, and received assurances from Iraq's Deputy Minister of Trade, Mr. Al-Obaidi, that the practice of requesting after-sales service in connection with GSM transactions would cease. At the time, USDA had no information that would establish which exporters, if any, had provided after-sales service to Iraq in response to these requests.

Decision on FY 1990 Funding

In October, 1989, USDA was also considering the request of Iraq for FY 1990 funding of the Iraq GSM-102 program. Iraq had requested allocations of approximately \$1 billion, a level consistent with program activity in FY 1988 and 1989. Initial discussions occurred in Washington, D.C. in October but, due to the allegations arising from the ENL investigation, a decision to make an allocation was initially postponed. Because USDA did not have access to the information being developed in the Atlanta investigation, it specifically asked the Office of the United States Attorney and USDA-OIG to indicate whether there was sufficient reason, at that time, to deny GSM funding participation in the FY 1990 program. Both the U.S. Attorney's Office and USDA-OIG informed USDA that they did not have information or evidence to indicate that Iraq should be precluded from obtaining additional FY 1990 GSM allocations.

USDA decided, after consultation with other federal agencies in the MAC process, to extend a line of credit guarantees for Iraq in FY 1990, establishing a tiered approach. A first tranche of guarantees was set at \$500 million, with additional credit guarantees for the year to depend upon the results of further investigations. USDA advised the MAC members that it would

continue to monitor closely developments in Atlanta, as well as continuing its own administrative review.

Review of Exporter Records

Able to obtain only limited information about the investigation in Atlanta, USDA officials decided to pursue additional information under USDA's regulatory authority. USDA attorneys conducted a preliminary analysis of some sales reviewed in the BNL bank records, and had determined that price levels for some commodities appeared to be higher than would be expected in light of market levels prevailing at the time of those sales. Based on its examination of the BNL records, USDA had identified a number of the apparently high priced sales as having been made by a New York-based exporter, Entrade, Inc. After conferring with the Office of the U.S. Attorney to insure that any USDA administrative review would not conflict with the work of the Atlanta investigation, USDA sought access to Entrade's records, again under its own regulatory authority as set forth at 7 CFR 1493.14.

Shortly thereafter, specific allegations were made public regarding payments to BNL bank officials. In an article in its November 29 edition, the Wall Street Journal reported on an Internal Revenue Service (IRS) lawsuit in Atlanta in which the IRS was attempting to freeze the assets of one of BNL's former directors, alleging that he had not reported in his tax return \$280,000 he had received from Entrade.

During December, 1989, USDA attorneys conducted a review of all records of GSM-guaranteed sales made by Entrade at the company offices in New York City, comparing the information in those records with data submitted to CCC Operations Divisions at the time when the GSM guarantees had been requested. In total, USDA attorneys reviewed the records for fifty-two sales to Iraq for which credit guarantees were issued: 16 wheat, 14 sugar, 11 rice, 3 dry beans, 2 barley, 2 yellow corn, and one sale each of lentils, dry peas, corn oil and sunflower oil.

The records made available with respect to each sale were sufficiently complete to permit USDA attorneys to perform a reasonably comprehensive analysis of those fifty transactions. In general, the files contained the initial request for guarantees, export reports, shipping documents, including bills of lading,¹ inspection and survey documentation, letters of

¹ In almost every case, the bills of lading indicated shipment by ocean going vessel to either the port of Aqaba, Jordan or Iskenderun, Turkey. In a few limited cases, the files contained documents indicating some mode of overland

credit, drafts drawn on letters of credit, commercial invoices to Iraq for goods and freight, and commercial invoices from commodity suppliers or freight companies. The files also included numerous other documents including telex traffic and other communications surrounding the sale.

CCC records indicated that it had issued guarantees to Entrade for fourteen (14) sugar sales to Iraq. USDA was able to find files which appeared to document all aspects of those fourteen sales. Based on the information in the exporter's files, USDA was able to make an approximate calculation of the profit margin which the exporter had obtained on each sale¹ by comparing the revenue obtained (based on the invoiced value of the transaction, either FOB or C&F basis) with the exporter's basic costs for commodity and freight (based on invoices from suppliers). USDA was able to link these invoices, in most cases, to supplier contracts or confirmations which coincided, within a day or two, of the date of sale to the Iraqi customer reported by the exporter in its application for credit guarantee. In almost all cases, sales were matched with purchases on the same day or with a few days.

USDA reviewed fourteen sugar sales to Iraq which occurred during the period July, 1985 through October, 1987, and represented about one-half (14 of 29) of all GSM-guaranteed sugar transactions during the period. For each of those sales, the exporter enjoyed margins ranging between \$2.77 and \$37.50 per metric ton, based on a comparison of the sale price with the exporter's replacement cost. Between April 1986 and February 1987, the sales resulted in very high margins of approximately

transportation to Iraq, or that the shipment had been consigned to an agent of the Iraqi Land Transport Ministry for overland shipment. However, in most cases, the files did not contain overland bills of lading to any Iraqi destination.

¹ The term "approximate margin of profit" means the difference between the transaction price and replacement cost. These were verified for each sale through contract/sales confirmation documents and commercial invoices. In all the transactions reviewed, both the sale of the commodity to Iraq and the purchase of the same commodity from the supplier occurred at the same time, or within a few days (commonly referred to as "back-to-back" or matched trades). Where the transaction included freight, the price charged Iraq for the freight component and the shipping company's invoiced price for the freight service were similarly verified. The profit calculation was "approximate" because it did not, for example, include any adjustments for various demurrage claims, inspection costs, or overhead, etc. Thus, it is a reasonably close, although not exact, assessment of profit or loss for each sale.

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\$15-\$37.50 per metric ton. During this time period, sale prices ranged between \$162 and \$281 per metric ton, on a C&F delivered basis. These approximate profit levels appeared to be much higher than those generally experienced by the export businesses in commodity trading.

USDA analyzed both these sale prices, and sale prices reported by other exporters in the same market during the July 1985 to October 1987 period with some common world benchmark price -- the London daily spot price for white refined sugar and the "French Whites" price quoted in the Paris market.³ In the latter case, USDA used the French Whites closing futures contract prices for the month of shipment, as quoted on the date of sale. Based on those prices, USDA concluded that almost all GSM refined sugar sale prices to Iraq during the period were at similar levels, substantially above benchmark world prices.

USDA also reviewed in detail eleven rice sales made by Entrade to Iraq under the GSM-102 program during the period, and found the pattern similar to that observed for sugar sales, although the approximate profit margins were not quite so dramatic. Between December 1985 and November 1986 exporters enjoyed approximate margins of profit of \$7 to \$20 per metric ton, although between January and April 1987, its approximate margins of profit dropped to \$1 to \$3 per metric ton.

With the aid of specialists in FAS' Grain and Feed Division, a series of approximate weekly market prices for No. 2 rice, FOB Gulf, was developed for the period June 1986 through June 1987 and used in the analysis. It appeared that both the prices for the specific transactions reviewed, as well as the sale prices for other rice sales to Iraq during this period, were approximately \$10-20 per MT above this benchmark world price.

USDA attorneys also reviewed two sales of corn to Iraq under the GSM program during the period, both of which involved very significant volumes. Its first sale in September 1986 was for

³ There is, unfortunately, no quoted futures market for U.S. refined sugar, FOB Gulf. Specialists in USDA's Sugar Group advised that the only consistently quoted world prices for refined sugar are in the London and Paris markets. In the London market, the price for refined sugar -- the London No. 5 contract price -- were reported only on a spot basis. The "French Whites" series, quoted from the Paris market, provided both daily spot and future contract closing prices for refined white sugar. Both series were published in the weekly International Sugar Report by F.O. Licht, a West German commodity information service. Use of either price series -- London or Paris -- is necessarily imperfect due to differences from FOB Gulf prices because of relative freight advantages to many destinations.

more than 100,000 metric tons; a second sale, three months later, was for 75,000 tons. Both sales were on an FOB Gulf basis for No. 2 yellow corn in bulk.

Based on confirmations/contracts and commercial invoices for both purchase and sale contained in the export - records under review, USDA was able to estimate approximate margin of \$16 to \$20 per MT these sales. These sale prices were also compared with benchmark world prices -- based on Chicago Board of Trade closing prices for No. 2 corn, FOB U.S. Gulf, during the period -- and that comparison indicated the sale prices to be \$15-20 per MT above world benchmark prices. USDA also compared these prices with other FOB sale prices registered under GSM during the period, and determined the transactions under review to be as much as \$10-12/MT higher than prices obtained by other exporters. However, the analysis indicated that all exporters were obtaining prices at least \$8-10 per MT above indicative world price levels.

The review of Entrade's records also included thirteen wheat sales made to Iraq under the GSM program. Of these thirteen sales, eleven sales also involved the award of bonus certificates under the Export Enhancement Program (EEP). The files appeared to contain complete documentation of each sale including the confirmations and/or contracts and commercial invoices for both the sale and purchase of the commodity. In the eleven cases where EEP bonuses had been awarded, the files also contained records of the income obtained by the exporter through sale of the bonus certificates.

USDA analysis of these sales revealed that profit margins for wheat sales averaged about \$2 per metric ton -- in line with expected margins for the bulk commodity business -- and well below the margins apparent in the sugar, rice and corn transactions. The records indicated the same approximate margins for both EEP and non-EEP sales.

Meetings in Baghdad and Review of Iraqi Records

In January, 1990, USDA reported to the WAC that its administrative review of the Iraq GSM-102 program had, thus far, revealed a pattern of unexpectedly high pricing for certain commodities -- corn, sugar and rice -- sold to Iraq during the period 1985-1987. USDA had focused initially on one particular exporter -- Entrade, Inc. -- because there had been allegations made in the Internal Revenue Service litigation linking that exporter with unreported payments to BWL officials. Although the USDA review had determined that Entrade had received very high prices, and enjoyed high approximate profit margins for its sales to Iraq, review of sales by other exporters revealed prices that were also high by comparison with benchmark world prices. USDA

wanted to determine an explanation for this pattern of high prices.

USDA told the NAC that it had been waiting for information to be released, or indictments issued, from the grand jury investigation in Atlanta, but that the Justice Department had not indicated that such disclosure was likely to occur in the near future. USDA also noted that the \$500 million of GSM guarantees allocated to Iraq for FY 1990 was being rapidly registered, and that it anticipated a request from Iraq for a second \$500 million tranche.

In February, the Government of Iraq ("GOI") made such a request, which USDA reported to the NAC. At an ensuing interagency meeting, USDA informed the interagency group that, after review of available information, it felt that it needed to pursue its administrative review further in order to be able to make a recommendation to the NAC as to any further allocation of FY 1990 GSM guarantees for Iraq. USDA proposed to have a delegation hold discussions directly with the GOI Ministry of Trade, as well as with the various Iraqi State Enterprises who acted as purchasing agents for Iraq. USDA requested these discussions through the U.S. Department of State and the U.S. Embassy in Iraq, and it was agreed that USDA would provide the State and Justice Departments with an agenda of items for discussion and questions it would ask. After further discussions between the Departments, a request for consultations was sent through the State Department to the GOI, and it was arranged that the USDA team would travel to Baghdad during the week of April 16, 1990 to meet with appropriate Iraqi officials.

The USDA team arrived in Baghdad on early Wednesday morning, April 18 and discussions began later that afternoon. Further discussions were held on April 19, 21 and 22.

The USDA delegation consisted of: F. Paul Dickerson, Associate Administrator of FAS and USDA's General Sales Manager; Lawrence T. McElvain, Director, FAS-CCC Operations Division; and Kevin J. Brosch, attorney with USDA's Office of the General Counsel, International Affairs and Commodity Programs Division. Also accompanying the team and participating in discussions was Geoffrey Watson, a lawyer with the U.S. Department of State, Office of the Legal Adviser, Near East Section. In Baghdad, the team was joined by Lawrence Panusak, the Agricultural Trade Officer assigned to the U.S. Embassy.

The GOI delegation was chaired by Mr. Farouk Al-Obaidi, Deputy Minister of Trade for Foreign Economic Relations. Members of the Iraqi team included: Mr. Fakhri Rashan, Advanced Country Director, Ministry of Trade; Ms. Amal Aziz, Commercial Counsellor, State Enterprise for Foodstuff Trading; Mr. Redha Salama, Director of the Import Section, Grain Board of Iraq; Mr.

Hanan Amin, Director for Wood Product Imports, State Enterprise for Construction Material Trading; and Ms. Samira Hadi Jaber, U.S. Desk Coordinator, Ministry of Trade. Also participating in the discussions was Mr. Hamza, the U.S. Desk Officer for the Ministry of Foreign Affairs. In the course of the discussions, a number of other officials, including commodity traders and individuals responsible for various State Enterprise procurement programs, were brought in to assist Iraq in its presentation.

At the time arrangements were being made for the USDA team visit, the GOI requested more specific information about the topics which USDA wished to discuss. In response, USDA prepared and transmitted, through the Department of State, a memorandum detailing its concerns about four aspects of the Iraq GSM program: (1) Iraqi procurement and tendering practices, and the connection between those practices and high price levels observed in a number of specific (and identified) GSM transactions during the period 1985-87; (2) Iraqi shipment practices between the intermediate ocean ports (either in Aqaba, Jordan or in Iskenderun and Mersin, Turkey) and final destinations in Iraq; (3) Iraqi requests and/or demands that U.S. exporters provide goods or other benefits as "after sales service" in connection with GSM purchases; and (4) Iraqi attempts to impose special "stamp tax" payment obligations on U.S. exporters selling under the GSM program. This list of four items also served as the basic agenda for the meetings. These issues were identified for the GOI so that it could be expected to locate and provide appropriate documents for inspection by the USDA team while in Baghdad, and to ensure that the Iraqi delegation would include knowledgeable individuals who could respond fully the USDA's questions.

In the course of the four days of discussions, the USDA team requested the GOI for numerous documents to substantiate both general Iraqi practices with respect to tendering, shipment and other practices, as well as documents underlying a number of specific GSM-guaranteed trades for rice, sugar, and corn. In many cases, the documents requested were for transactions which occurred as early as 1985, and which had already been sent to document storage. The GOI provided nearly all documents requested for review, and provided either file originals or copies for USDA to bring back to the United States. In those instances where the GOI reported that it had been unable to find specific documents requested, it produced other documents from its files which either provided the same information or tended to substantiate the information provided.

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USDA findings with respect to the four areas of inquiry mentioned above are as follows:

(1) Tendering Practice and High Commodity Prices

GOI officials told us that all Iraqi State Trading Enterprises are required by law to issue public tenders when purchasing commodities from abroad. We requested citation to the precise law or regulation which established this legal obligation, and were told that the requirement was set forth in unpublished presidential regulations which were issued to the ministries by the Office of the President of Iraq. USDA was told that these presidential regulations were considered to be confidential and internal within the Iraqi government, and so were not provided with a copy of the regulation; USDA was told that the regulation had not been published in the official gazette.

GOI officials stated that the existence of this legal requirement could be inferred, however, by the practice of the state enterprises in conducting public tenders in virtually all cases. GOI officials said that public tenders had taken place with respect to all GSM-guaranteed transactions, and produced files containing the public tender and related documents for all of the transactions that USDA indicated it wished to review in more detail.

GOI officials explained that although there was a general legal requirement to conduct public tenders, each state trading enterprise was afforded some discretion in establishing its own policies for implementing this requirement. Further discussion of the topic revealed some of the differences in the policies adopted by the various state enterprises in conducting tenders for the agricultural commodities which USDA was specifically concerned, i.e., sugar, rice and corn.

In the course of earlier work in the administrative review, the USDA team had identified a number of Iraq GSM purchases involving corn, sugar and rice with respect to which the exporter reported sale prices well in excess (\$10-\$35/MT) of either the replacement cost for the commodity, or of a benchmark world price. A principal goal of the team was to determine why Iraq would pay such a high price in light of the apparent availability of these commodities in the marketplace at lower values.

In the list submitted to the GOI, USDA identified a number of these high priced sales and asked the GOI to make available underlying records. At the meetings in Baghdad, USDA was told that all of these transactions involved public tenders and that, in the view of the GOI, the prices paid for the commodities represented sales at the lowest prices bid, or on the most advantageous terms, or both. GOI invited USDA to identify

specific transactions which it wished to review and offered to produce all materials in its files on those transactions.

In response, USDA identified ten transactions that it wished to review: two corn sales, four rice sales and four sugar sales. All of these were GSM-guaranteed sales by Entade, for which Entade had already obtained substantial background information through its review of bank and exporter records. USDA obtained the following information relative to those ten transactions:

1. Corn Sales

GSM-102-54284

The Iraqi State Enterprise for Feed (SEF) issued its public tender Notice No. (25) 1986 on or about November 1, 1986, tendering for supply of 150,000 metric tons of yellow corn. The notice was published in the English language Baghdad Observer as well as in Arabic language newspapers in Iraq. The notice and associated list of terms and conditions were also available at the offices of SEF. Under terms of the notice, the tender was close on November 12, 1986, and all bidders were required to provide a bid bond of 30. Bidders were permitted to submit their proposals on either an FOB or C&F basis; C&F bids could specify delivery at Baghdad, at Aqaba in Jordan, or at Mersin or Iskenderun in Turkey.

In total, SEF received seven bids, four of which were immediately disqualified for failure to adhere to the condition of the tender requiring that a bid bond be provided. The three qualifying bids were as follows:

<u>Company</u>	<u>FOB US Gulf</u>	<u>C&F Aqaba/Iskan.</u>	<u>C&F Bagh'd</u>
Arab -Finagrain	\$89.50		\$175.00
Intradevoe	\$86.95		
Entrade			\$194.50

⁴ GSM-102-54284 and GSM-102-55190 (corn); GSM-102-53030, GSM-102-53031, GSM-102-54464 and GSM-102-54977 (rice); and GSM-102-10735, GSM-102-10736, GSM-102-55245 and GSM-102-55585 (sugar).

The four bids rejected for failure to submit bid bonds were:

<u>Company</u>	<u>FOB US Gulf</u>	<u>C&F Agaba/Isken.</u>	<u>C&F Bagh'd</u>
Deerfield	\$122.00		\$169.00
Trinity, Ltd.			\$153.00
ITI (Haddad Bros.)			\$178.00
Project Export		\$110.79 (Isken.)	

A schedule of the responses was prepared by the SEF staff and submitted to a committee of the Board of Directors for decision. The committee decided not to accept any of the three qualifying offers, but instead to invite representatives of the three to submit revised offers and to visit SEF for negotiations. SEF also submitted a counteroffer to all three of \$82.00/MT, FOB U.S. Gulf, or \$152.00/MT, C&F Baghdad.

All three companies responded to the counteroffer. Arab Finagrains offered to reduce its original offers \$5 for each destination. Payment was to be made under two separate letters of credit; the FOB portion of the sale would be financed under a GSM guarantee, with the freight portion payable on a cash basis.

Intradevco (Dreyfus) offered \$84.00/MT FOB, U.S. Gulf, payment under a letter of credit financed for three years under GSM.

Entrade offered \$153.00/MT, C&F Baghdad. Financing was to be under two separate letters of credit. The FOB portion of the sale was to be financed for three years under GSM; the freight was to be financed for two years pursuant to the Iraqi-Turkish protocol for transportation with shipment through Iskenderun, Turkey.

After the bid was accepted, Entrade and SEF formalized a contract for the sale in which SEF agreed to pay \$153.00/MT, C&F, and in which the FOB portion of the sale was designated as \$92.00/MT. SEF apparently agreed to this allocation between the FOB and freight portions of the sale, and directed Bank Rafaidin to open letters of credit accordingly. Note that, although the final C&F price agreed to was almost identical to the SEF counteroffer, the \$92/MT FOB price agreed to was \$10/MT above the SEF counteroffer, and \$8/MT higher than the FOB price at which corn was purchased from Intradevco (Dreyfus) in the same tender.

The counteroffers were submitted to the committee of the Board of Directors which decided to reject the offer of Arab Finagrains, and to accept the offers of both Intradevco and Entrade. SEF officials asserted that the decision to reject Arab Finagrains was based on the fact that its C&F price was approximately \$17/MT

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higher than the Entrade bid, and because it offered no financing for freight. The Intradevco bid was accepted on an FOB basis, and shipment was arranged through Aqaba, Jordan using shipment services which had been contracted with a Geerbult-led joint venture on a fixed-price annual basis. Subsequently, both the Entrade sale and the Intradevco (Dreyfus) sales were registered for GSM guarantees.

GSM-102-55190

SEF announced a tender for 300,000 MT of yellow corn in its Notice No. (13) 1986, published on or about August 1, 1986. The Notice was published in the Baghdad Observer and in other Arabic-language newspapers, and specific terms and conditions of the tender were made available through SEF's offices. The tender required bidders to submit a 3% bid bond, and announced a closing date of August 13, 1986. The tender was for No. 2 U.S. yellow corn for Oct/Nov/Dec, 1986 shipment. The tender permitted bids on FOB or C&F bases, and anticipated deferred payment for the FOB portion under the GSM credit guarantee program, as well as 720 day deferred payment for the freight and shipping costs.

In response to this tender, SEF received seven bids. Again, four bids were rejected for failure of the bidder to submit the 3% bid bond required in the tender specifications. The three qualifying bids were:

<u>Company</u>	<u>FOB US Gulf</u>	<u>C&F Aqaba/Jaken.</u>	<u>C&F Bagh'd</u>
Arab Finagrain			\$178.00
Entrade			\$190.00
Intradevco (Dreyfus)	\$80.50	\$110.00	\$158.50

The bids were submitted to a committee of SEF's Board of Directors, which confirmed the rejection of the four bids without bond, and which directed SEF staff to invite the remaining three bidders to submit alternative bids and to direct their local representatives in Baghdad to visit SEF's offices for further negotiations. When USDA requested any documents relating to these negotiations, GOI officials asserted that negotiations had been conducted orally and that their files contained no additional documents.

According to GOI officials, after negotiations a contract was awarded to Entrade which had reduced its offer first to \$175.00/MT, C&F Baghdad, and finally to \$171.50/MT, C&F Baghdad. Entrade agreed to deferred payment terms for the entire C&F

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price, with the FOB portion to be financed by a letter of credit guaranteed under the GSM program, and the freight portion to be financed by the Turkish Central Bank under the Iraqi-Turkish transportation protocol. A final contract was agreed to for the \$171.50, with allocation of \$90.00/MT for the FOB portion, and \$81.50 for freight. The available documents do not indicate that Entrade offered an FOB U.S. Gulf price quotation at any point during the course of its bidding. The \$90/MT FOB price reported to CCC when the sale was registered for GSM guarantee apparently represented an allocation made by the exporter, and agreed to by SEF when it opened its letter of credit. Note that this price was \$9.50/MT higher than the FOB price that had been initially offered by Intradevco (Dreyfus).

b. Rice Sales

At the current time, the Grain Board of Iraq is responsible for import purchases of rice. The Grain Board is the administrative successor of the State Organization for Grain and Foodstuffs ("GFS"), which was the responsible governmental entity in the relevant period, 1985-88.

GFS's method of conducting its public tenders differed somewhat from the procedures followed by SEF, described above. Essentially, GFS maintained a list of 25-30 trading companies which it considered to be reliable suppliers of rice. Seven or eight times each year, GFS would announce its tenders for rice, usually for 30,000 MT in two shipments of 15,000 MT each. The tender was announced by sending telex messages to each of the companies on the target list. Because the tender was made by direct contact with potential suppliers rather than by newspaper publication, the response time was much shorter. Typically, the tender closed within 7-10 days after announcement.

Unlike SEF, GFS did not require responding companies to provide a bid bond, nor did it request bidders to travel to Baghdad for negotiations. Instead, the GFS staff would prepare a competitive study of the bids received, and submit that analysis to a committee of its Board of Directors with a recommendation as to possible counteroffers. The committee consider the recommendations, and authorize a counteroffer at a specific price level to be made to some or all of the bidders. Those counteroffers would be transmitted by telex to the appropriate companies, and revised bids would be received. Depending on the price levels and terms of these revised offers, GFS would then purchase rice from one or more of the bidders.

Although GFS announced its tender for volumes, its final purchasing decision was often for lesser or greater amounts depending upon Iraq's particular needs, the offered prices and market conditions.

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GSM-102-54977

On November 12, 1986, GFS announced a tender for 30,000 MT of No. 2-4 U.S. rice in two cargoes for Jan./Feb. 1987. GFS records indicate that the tender was transmitted by telex message to 34 potential suppliers. Companies were asked to submit bids for up to 30,000 MT. GFS requested C&F bids (Iskenderun or Aqaba) on deferred payment terms, with FOB financing guaranteed under the GSM program, and deferred payment of one year for freight.

By close of the tender, GFS had received eight responses, seven with specific bids and one from a company (American Rice) indicating that it would not participate. GFS received no response from the other 26 companies. The bids of the seven participating companies were as follows:

<u>Company</u>		<u>FOB US Gulf</u>	<u>C&F Isken.</u>	<u>C&F Aqaba</u>
Balfour-McL.	(Jan)	\$226.00	\$257.00	\$259.00
	(Feb)	\$228.00	\$257.00	\$259.00
Benjar Trank	(Jan)	\$224.53	\$254.53	\$263.53
	(Feb)	\$224.53	\$254.53	\$263.53
Continental	(Jan)	\$226.00		
	(Feb)	\$225.00		
Comet Rice	(Jan)	\$229.00		
	(Feb)	\$230.00		
Entrade	(Jan)		\$254.00	
Euro Maghrib	(Jan)	\$238.96	\$257.09	\$261.96
	(Feb)	\$238.96	\$257.09	\$261.96
Riceland	(Jan)	\$221.28	\$245.28	\$250.28
	(Feb)	\$221.28	\$245.28	\$250.28

GFS provided a competitive analysis of these bids to its committee, and was directed to counteroffer to all seven companies for 15,000 MT at price terms of either \$243.50 C&F, Iskenderun, or \$248.50, C&F Aqaba. This counteroffer contemplated an FOB, U.S. Gulf price of \$220.50, and freight costs of \$23 to Iskenderun and \$28 to Aqaba.

GFS received replies from five companies accepting its counteroffer. Due to the price levels, which GFS deemed favorable, it executed purchases from these five companies of 105,000 MT for delivery in the January-March, 1987 period, despite the fact that its original tender had been for only 30,000 MT. Contracts were awarded to Comet Rice (30,000 MT),

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Continental (15,000 MT), Euro Maghrib (15,000 MT), Entrade (15,000 MT), Riceland (30,000 MT). All sales were made at the price levels in the counteroffer, with the FOB value financed pursuant to the GSM program, and with freight on a cash basis. All sales were eventually registered with the GSM program on an FOB basis of \$220.00/MT.

USDA analysis indicates the FOB prices offered by all participants in the tender were well above apparent replacement costs for rice in the U.S. market. For example, the FOB portion (\$220/MT) of the final contract price was approximately \$9 higher than the supplier invoice price paid by Entrade for the rice shipped, and approximately \$8-10/MT above the USDA estimated FOB price for the period. It should be noted, however, that the FOB price reported for this sale was not an actual transaction price, but rather an allocation of the FOB portion of a C&F contract price.

GSM-102-54464

On September 7, 1986, GFS issued a notice of tender for 45,000 MT of U.S. No.2-4 rice, to be shipped in three cargoes for Oct/Nov/Dec 1986 delivery. The request asked for bids on a C&F Iskenderun, Turkey or Yenbu, Saudi Arabia basis. Payment was to be on 3-year deferred terms under GSM for the FOB portion, and deferred payment of at least one year for freight. By its terms, the tender closed September 12, 1986.

GFS records indicate that the notice of tender was telexed to a list of 33 potential suppliers. By the close of the tender, GFS had received responses from 10 suppliers, three of which indicated that they would not participate. The other nine companies submitted bids as follows:

<u>Company</u>	<u>FOB US Gulf</u>	<u>C&F Iskenderun/Yenbu</u>	<u>C&F Baghdad</u>
Al-Haddad		\$274.00	
Balfour (Oct)		\$267.00 / \$273.00	
(Nov)		\$268.00 / \$274.00	
(Dec)		\$270.00 / \$276.00	
Comet	\$235.00		
Continental	\$226.00		
Entrade	\$219.85	\$254.85	\$299.85
Euro Maghrib	\$233.00	\$253.60	
Riceland	\$221.20	\$243.29 / \$249.88	

GSF counteroffered to all participants at the following price levels: \$220/MT, FOB U.S. Gulf, \$243.28 C&F Iskenderun or \$248.78 C&F Aqaba. This counteroffer was accepted by a number of the participants, and GSF concluded contracts with Comet (15,000 MT), Entrade (30,000 MT), Euro Maghrib (15,000 MT) and Riceland (30,000 MT). Subsequently, GSF asked Entrade to provide an additional cargo of 15,000 MT on the same terms, and Entrade agreed.

Note that Entrade concluded its sales of all three cargoes on a C&F basis, in which negotiations clearly identified the FOB value of the sale as \$220/MT. The FOB portion of the sales were to be financed under the GSM program, and those three cargoes were subsequently registered with the GSM program under three different guarantee numbers. Entrade also agreed to arrange for freight financing for two of the three cargoes through the Turkish Central Bank in accordance with the Iraqi-Turkish transportation protocol; freight for the third shipment was paid on a cash basis. It should be noted that in the two cases where Entrade agreed to payment of freight on a deferred payment basis, it later asked GFS to open letters of credit for the FOB portions of the sales at \$228/MT, an increase of \$8/MT above the amount previously bid and agree to. GFS agreed to this request. Thus, where Entrade agreed to deferred payment terms for freight, it subsequently increased the FOB portion of the price which it reported to CCC in its GSM registration. In the case where GFS paid freight on a cash basis, there was no increase FOB price (\$220/MT) registered with CCC.

GSM-102-53030 & GSM-102-53031

On March 26, 1986, GFS issued a notice of its intent to purchase 30,000 MT of No.2-4 U.S. rice in two cargoes for May/June 1986 shipment. The conditions of the tender were for GSM guaranteed financing for the FOB portion of the sale; freight was to be paid on a cash basis. GFS file documents contains a list of 29 prospective suppliers to whom the notice was sent. The notice established a closing date of April 4, 1986 for initial bid responses. GFS documents indicate that GFS received responses from twelve suppliers. Entrade was among the twelve responding suppliers, and initially offered to supply 30,000 MT at the following prices:

C&F Aqaba	C&F Isken.	C&F, Yenbu
\$323.95	\$317.45	\$323.95

Other suppliers participating included Woodward & Dickerson, Riceland, Euro Maghrib, Comet Rice, Continental, GenPro, American Rice, Haddad Bros., and Trans Ocean. After evaluating the offers, GFS issued its counteroffer to all participants asking

for revised bids. GFS records contain an exchange of numerous telexes between GFS and Entrade between April 14, 1986 and April 18, 1986 during which the price was gradually negotiated to contract prices of \$270.98, C&F Aqaba, and \$264.46, C&F Iskenderun. The final payment terms remained as originally proposed -- GSM guaranteed financing for the FOB portion of the sale, and cash for the freight portion. During the entire bid and negotiation process, Entrade's bids were always on a C&F basis; no FOB prices were quoted.

As in the other cases, GFS eventually purchased a much greater amount -- 105,000 MT -- than the 30,000 MT it has announced in its original notice. GFS entered into contracts for purchase with five different companies -- Entrade (30,000 MT), Euro Maghrib (15,000 MT), Riceland (15,000 MT), Trans Ocean (30,000 MT) and Woodward & Dickerson (15,000 MT) -- all at almost identical prices. The FOB prices registered for these sales all ranged between \$241.48 and \$244.00 per MT.

c. Sugar Sales

The State Establishment for Foodstuffs and Trading Co., Baghdad, ("F&T") is the entity within the GOI responsible for purchasing and importing foreign sugar. Similar to the practice of GFS in rice tenders, F&T maintained a list of potential suppliers -- about 15-20 companies -- which are notified of its tenders through telex messages. Typically, the closing date of a tender was within a week of the day of notice.

Sugar tenders differed from rice tenders in a number of respects. Most significantly, F&T bought its sugar on an "any origin" basis. While tenders for rice and corn were for U.S. product to be financed under the GSM program, F&T did not limit its purchases to U.S. origin. During the period under review -- 1986-1988, U.S. export sugar was trading at a significant premium to the world market. F&T was clearly aware of this price premium; evaluation documents reviewed uniformly contained a reference to the prevailing London spot price for refined sugar which F&T said that it constantly monitored. F&T bought U.S. sugar only where it determined that the premium that it had to pay for U.S. sugar was justified by the advantages associated with GSM-guaranteed credit. Where, in the evaluation of F&T, the U.S. price was too high even, it would purchase on a cash basis from other origins.

Another difference in the tenders was that F&T typically purchased only the amounts for which it had originally tendered. Unlike the case of rice -- where GFS would purchase amounts well in excess of those originally announced in the tender notice -- F&T tendered for and purchased much smaller quantities. Oftentimes, it purchased for next month delivery and, therefore,

was operating in the equivalent of the spot market. Indeed, as mentioned above, when determining the level of premium it was paying for U.S. sugar, F&T analysts appear to have gauged U.S. bids against the daily spot price in the London market.

Finally, the sugar tenders differed from the rice tenders in that there were generally very few U.S. participants. Although the F&T supplier list contained a number of U.S. suppliers, in the cases we reviewed F&T received bids from only one or two companies offering to supply U.S. sugar. As a result, F&T's decision to purchase was often a choice not between different U.S. offers, but between a higher U.S. price offer on deferred payment terms and a lower third country price on cash payment terms.

In some cases, F&T received only one responsive bid to its tender. When that occurred, and if F&T felt that its supply requirements made it urgent that it purchase anyway, the tender changed into a price negotiation with the single bidder. Even where there was more than one bidder, F&T appears to have counteroffered or asked for a revised bid from participants almost as a matter of course. As a result, participants in the tenders aware of this practice could have bid very high prices initially, knowing that they would invariably get another chance to obtain the business.

GSM-102-10735 & GSM-102-10736

On April 21, 1986, F&T issued a notice of its intention to purchase 12,000-14,000 MT of white refined sugar for May 1986 shipment. F&T records indicate that approximately 16 potential suppliers were informed by telex message. Two different versions of the invitation were sent. U.S. companies were asked to tender offers with payment financed under the GSM program; non-U.S. companies were asked to tender on deferred payment terms of at least one year. Closing date for the tender was April 23, 1986. Two U.S. companies and four European companies responded with bids; five other companies responded that they would not participate.

The following bids were received and considered:

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<u>Company</u>	<u>Cash Price/MT</u>	<u>Credit Price/MT</u>	<u>Credit Terms</u>
Alrahba	\$238 (Aqaba)	\$295 (Aqaba)	360 days FOB Cash freight
SCOA Int'l	\$228 (Isken.)	\$285 (Isken.)	360 days FOB Cash freight
	\$232 (Aqaba)	\$290 (Aqaba)	360 days FOB Cash freight
		\$305 (Isken.)	540 days FOB Cash freight
		\$312 (Aqaba)	540 days FOB Cash freight
Duffus	\$231 (Isken.)		
Cargill		\$303 (Isken.)	360 days FOB Cash freight
		\$327 (Isken.)	720 days Cash freight
Int'l Farmers		\$282 (Any Port)	3 yrs (GSM) FOB Cash freight
Entrade		\$262.45 (Isken.)	3 yrs (GSM) FOB 1 yr freight

F&T officials provided us with a copy of the competitive study that was conducted and presented to its committee for decision. The committee directed F&T to seek negotiations with Entrade for a lower price. Through a series of telex offers and counteroffers over the following five days, a final contract price of \$259.00/MT, C&F Iskenderun was achieved and agreed upon.

Essentially, Entrade's offer of \$259.00/MT, C&F Iskenderun on three years deferred payment terms represented an FOB price of \$229.05/MT, and freight at \$29.95/MT on one year deferred payment terms. As such, Entrade's offer represented not only the lowest C&F offer, but an FOB price that was lower than any of the cash FOB prices quoted by other participants in the tender. In addition, the credit terms offered by Entrade -- 3 years FOB financing under GSM, and on year freight financing -- was clearly the most attractive financing package offered.

USDA analysis indicates that the Entrade offer was approximately \$16/MT higher than its replacement cost, FOB basis (as indicated by its supplier invoice), and approximately \$12-14/MT higher than a benchmark world price. F&T documents indicate that their competitive analysis, at the time of the purchase, also indicated that the Entrade price was \$12/MT above a benchmark world price (based on the London spot priced of \$217/MT on April 23, 1986, the day of tender closing).

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Nonetheless, F&T officials told us that they felt the Entrade offer was very advantageous in that market for a number of reasons: (1) it was a deferred payment offer lower than the cash offers in hand; (2) they had been receiving bids for U.S. sugar at \$50-70/MT above the London spot price, while the Entrade offer was only \$12/MT above that price; and, (3) the offer contained freight financing. As a result, F&T inquired with Entrade about providing a second cargo of 12,000-14,000 MT at the same price, and Entrade accommodated. These two cargoes were registered with CCC under guarantees GSM-102-10735 and GSM-102-10736.

GSM-102-55245

On December 14, 1986, F&T issued an invitation to its list of 16 potential suppliers to bid on the supply of 12,000 to 14,000 MT of white refined sugar, with a shipment for Jan/Feb 1987. The request was sent in two forms: U.S. suppliers were asked to bid payment terms under the GSM program; non-U.S. suppliers were asked to bid on deferred payment of at least one year. Closing date for bids was December 17, 1986.

F&T received only three bids from the trade, two of which were from U.S. suppliers proposing sales guaranteed under GSM. The bids were as follows:

<u>Company</u>	<u>FOB Price/MT</u>	<u>C&F Price/MT</u>	<u>Payment Terms</u>
SLOL		\$189 (Isken.)	Cash
		\$194 (Aqaba)	Cash
Cargill		\$240 (Isken.)	3 yrs. (GSM) FOB 1 yr. freight
Entrade		\$254 (Isken.)	3 yrs. (GSM) FOB 1 yr. freight
		\$260 (Aqaba)	3 yrs. (GSM) FOB 1 yr. freight

F&T rejected SLOL's offer because it failed to provide any financing whatsoever. It attempted to negotiate a more favorable price with Cargill, but Cargill refused to lower its offer. Cargill, whose original bid indicated April/May shipment, did make one concession by agreeing to move shipment date to February. F&T then booked one cargo at \$240/MT, C&F Iskenderun, which represented allocations of \$220/MT FOB and \$20/MT freight. This sale was eventually registered by Cargill with CCC under the GSM program and assigned guarantee GSM-102-55051. Cargill registered the port value as \$218.03/MT.

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At the same time, F&T also continued negotiations with Entrade for a lower price. In a telex exchange over the next several days, Entrade eventually agreed to a lower price of either \$244/MT, C&F Iskenderun, or \$248/MT C&F Aqaba, destination at buyers option. This cargo was booked for Iskenderun, but later diverted, while in route, to Aqaba with an agreed upon price adjustment to \$246/MT. This sale was registered with CCC and issued guarantee GSM-102-55245; Entrade reported the FOB value as \$228.50/MT, which would allow \$17.50/MT for freight.

GSM-102-55585

On or about January 25, 1987, F&T sent notice to its list of suppliers of its intention to purchase 12,000-14,000 MT of white refined sugar for March delivery. Again, F&T asked its suppliers to bid deferred payment terms under GSM (or, if a non-U.S. supplier, deferred terms of at least one year) for the FOB portion of the transaction. F&T also sought freight financing.

Only three companies sent any response. One of those, Rionda, replied only to say that it would not participate. The other two participants were Cargill and Entrade whose bids were as follows:

<u>Company</u>	<u>FOB Price/MT</u>	<u>C&F Price/MT</u>	<u>Payment Terms</u>
Cargill		\$290 (Isken.)	Cash
Entrade		\$286 (Isken.)	3 yrs. (GSM) FOB 1 yr. freight

F&T immediately eliminated the Cargill for two reasons: (1) a cash offer higher than Entrade's offer on deferred terms; and (2) Cargill offered for July/August delivery instead of March delivery as indicated in tender announcement.

Thus F&T had only Entrade's bid to consider. F&T negotiated with Entrade for a price reduction in a series of exchanges between January 28 - 31, 1987, arriving at a final transaction price of \$282/MT, C&F Aqaba. Allocation of this price was \$263/MT for the FOB portion, and \$19/MT freight.

F&T's file documents indicate that its evaluation of a benchmark price for sugar at that time was \$218/MT, based on the prevailing London spot price. F&T officials explained that their decision to purchase the sugar at a premium of \$40-50/MT over the London spot price for several reasons: (1) they had only two bids of which Entrade's was the lower; (2) Entrade offered total financing; (3) F&T had an immediate need to purchase and could not wait; and (4) the market was very volatile and F&T feared large increases in price.

(2) Arrival at Destination

The second topic of discussion between the delegations was the issue of proof of arrival at destination. USDA noted that, as a result of the investigation in Atlanta, there had been questions raised as to whether the commodities purchased by Iraq under the GSM program had arrived at their intended final destination in Iraq. USDA explained that it had two goals in the discussions: first, to document whether shipments made in the past, in fact, had arrived at destination in Iraq; second, to understand how Iraq's overland shipment system worked so that a system could be implemented if documentary "proof of arrival" were made a program requirement for all transactions in the future.

Geographically, Iraq is almost entirely landlocked with the exception of a narrow landlink to the Persian Gulf in the south of Iraq near the city of Basra. During the Iraq-Iran conflict, the Basra area was the center of some of the most intense fighting, and the port facilities around Basra were effectively closed to international shipping. As a result, Iraq was forced to make arrangements to operate through foreign ports on the Mediterranean or Red Sea in Turkey, Jordan and Saudi Arabia, and to bring commodities overland by truck to Iraq. Shipments were made primarily through the ports of Aqaba, Jordan, and Mersin and Iskenderun Turkey, with a small volume imported through Yanbu, Saudi Arabia.

USDA noted that, in the course of its administrative review of the program, it had inspected both bank and exporter files for a number of GSM-guaranteed transactions where shipment had been made to Iraq through those foreign ports. In almost every case, the records documented shipment as far as the ocean port, but contained little or no record of the overland portion of the shipments to Iraq.

GOI officials expressed surprise that proof of arrival was an issue. They explained that Iraq maintains a very rigorous system of tracking shipment of agricultural commodities from the foreign ports to their destination in government stores in Iraq, and offered to provide whatever documentation was required to satisfy USDA's inquiry.

According to GOI officials, the transportation and accounting system works as follows:

Agricultural commodities purchased from the United States are off-loaded at the ports and consigned to representatives of the Iraqi Ministry of Transportation (IMT). The IMT has arrangements in each of the ports for unloading and transportation overland to Iraq.

In Jordan, Iraq has entered into annual contracts with several companies, but most often with a European-Jordanian joint venture headed by Gearbulk. That joint venture operates a floating pier operation which unloads the contents of ships into a floating vessel, and then off-loads the contents into a fleet of trucks, with capacity of 30-50 MT each, operated by IMT. As the trucks are loaded, a trucking manifest is prepared identifying the type of commodity, quantity, ship, date of unloading, name of driver, and truck number. The trucks then proceed through Jordan, and are checked through Iraqi customs at the Al-Rahbat customs entry point. At Al-Rahbat, lists are maintained by shipload. As each truck clears through customs, a copy of the truck manifest is collected, and the truck's entry is recorded on a list maintained for the particular shipload. The original copy of the truck manifest is endorsed by customs officials, and the truck then proceeds to a government clearing house on the outskirts of Baghdad. At that point, the trucking manifest information is recorded on a second list of shipments received from the particular vessel. The truck is then assigned to a government store or storage facility. When the truck arrives at the storage facility, the manifest is again endorsed by the facility operator to indicate final arrival at destination. This manifest then serves as a record of arrival at final destination.

While in Baghdad, the USDA team also met with representatives of the Gearbulk-led joint venture who told us that they kept computerized records of each shipment received, and of the trucks that were loaded from each ship. These records are maintained in their offices in Amman, Jordan, and they offered to make these records available to USDA at its request.

The system operated in much the same fashion in the Turkish ports, except that the trucking services were provided by private Turkish truckers under contract. The Turkish program operated according to the provisions of the Iraqi-Turkish transportation protocol under which Iraq was provided credit facilities for the inland freight portion of the transactions through the Turkish Central Bank. One of the features of this arrangement was to permit Turkish carriers to obtain the trucking portion of the business. Trucks proceeding from the ports at Mersin or Iskenderun entered Iraq at the customs post in the north of the country, and either were directed to government stores in the north of Iraq, or proceeded to the government clearing station near Baghdad.

GOI officials explained that documentation to establish the arrival of all shipments into Iraq was available, but that it involved literally thousands of documents due to the fact that very large commodity shipments (10,000-25,000 MT per vessel) had to be transported inland by trucks with capacities of 30-50 MT each. Thus, each shipment would involve truck manifests and customs documents for hundreds of truckloads. Because of the

inability of the USDA team to attempt to check and audit this huge number of documents (all of which are in Arabic or Turkish). USDA requested GOI to provide samples for specific shipments of the truck manifests, the customs clearance documents, and the custom ship/truck lists. Those samples were provided and will be translated and reviewed.

3. After-Sales Service

The USDA team also raised the issue of so-called "after-sales service" with GOI officials. As background, USDA noted that, due to some complaints that had been received from exporters, USDA had initially raised this issue with GOI initially during discussions in November 1988. At that time, USDA had been informed that at least one Iraqi state trading enterprise had been routinely requesting that exporters provide either cash rebates or goods, either in the form of additional commodities or non-agricultural items, as so-called "after-sales service" in connection with GSM-guaranteed transactions. At the time, USDA noted its objection to this practice and asked GOI to take action to stop such requests.

In the summer of 1989, USDA received information from several exporters that they were continuing to receive requests for "after-sales" service. That information indicated that the requests were either that successful bidders utilize designated Iraqi shipping companies, or that the company provide additional goods in connection with the sale. In one case, USDA obtained a copy of a "broadcast" telex, apparently sent to a number of companies doing GSM business with Iraq, requesting after-sales service in the form of trucks and truck parts.

USDA immediately issued a notice to exporters clearly restating USDA policy on this issue, and notified GOI of its objection to this practice. During consultations in November, 1989, USDA sought a firm commitment from GOI that it would end the practice. At the conclusion of those meetings, Deputy Minister of Trade Al-Obaidi gave assurances that all Iraqi enterprises would be instructed not to request or accept after-sales service in connection with GSM transactions.

At the meetings in Baghdad, USDA informed GOI representatives that, although it had received no additional complaints or information that requests for after-sales services had been made by Iraq since the November meeting, it wished to obtain: (1) formal assurances that the practice had been eliminated with respect to CCC transactions; (2) information about any instances in the past in which after-sales services had been requested by Iraq and provided by exporters.

With respect to the first request, Deputy Minister Al-Obaidi stated that the Ministry of Trade had issued a directive to all

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purchasing entities instructing them not to engage in this practice with respect to any CCC guaranteed transactions. Mr. Al-Obaidi provided a letter to Mr. Dickerson formalizing this assurance.

With respect to past instances of after-sales service, USDA explained that, although CCC's regulations do not specifically forbid a purchaser from requesting after-sales service, the regulations do require exporters, when registering export sales for the purposes of obtaining GSM guarantees, to report the port value of the sale, net of any "discounts or allowances." USDA explained that additional consideration, in the form of after-sales service would be considered an "allowance or discount", and that the failure of an exporter to report a net value would violate program requirements. After some discussion of this issue, GOI agreed to provide, and later did provide, a list of instances in which after sales services were requested and provided. That list has been provided to USDA-OIG for further investigation.

4. Imposition of Special Taxes

Very recently, USDA received a complaint from exporters that GOI was attempting to require U.S. exporters to pay a "stamp tax" in connection with GSM sales. According to information received, the tax was an internal tax required by the GOI to be levied on the issuance of certain classes of official and commercial documents, including the opening of commercial letters of credit. It was unclear, from the information obtained from the exporter, how significant this tax obligation was.

USDA viewed this tax as a strategy by GOI to generate immediate hard currency. Moreover, USDA was concerned that exporters, subject to this requirement, would simply increase the cost of the commodity to accommodate this additional obligation. Because this tax appeared to be the legal obligation of the purchaser, who was responsible for opening the letter of credit, USDA considered the payment of such a tax to be "an allowance or discount" within the meaning of the GSM regulations, requiring the exporter to net the value of the tax payment from its contract price when reporting port value for purposes of the GSM guarantees.

USDA immediately informed the GOI that it objected to this practice for several reasons: (1) the practice of a government imposing a tax on itself appeared to be a sham transaction; (2) an attempt to pass this tax on to U.S. exporters appeared to be a device to use the GSM program to generate hard currency; (3) the practice simply added additional cost to the program without any benefit to U.S. agricultural exports; and (4) the practice created a situation where U.S. exporters could, either intentionally or inadvertently, violate program reporting

requirements. USDA asked GOI to intervene immediately to put end to this practice.

In the discussions in Baghdad, representatives of GOI provided USDA with an Arabic-language copy of the decree imposing the stamp tax in question. GOI representatives insisted that the tax was a legitimate tax, and was levied even in cases where government enterprises were involved. They noted that the law imposing the tax did not stipulate precisely who was responsible for the tax, only that a tax should be imposed on certain transactions. They did agree, however, that the tax was an internal tax, and that the responsibility for payment would normally fall upon the purchasing entity opening the letter of credit.

Deputy Minister Al-Obaidi stated that the GOI had considered the objections of USDA, and a decision had been made by GOI to exempt GSM transactions from the application of the tax. He stated that officials of the GOI were still working on the precise legal mechanism for creating the exemption, but that all government purchasing entities had been instructed not to request or request the payment of the tax in cases of GSM transactions. In the letter to Mr. Dickerson, Mr. Al-Obaidi formalized this commitment.

At the conclusion of the meetings, GOI officials provided USDA with copies of the documents that had been requested in the meetings, and a final copy of the letter of commitment signed Mr. Al-Obaidi.

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CONCLUSIONS

As a result of its administrative review, and its analysis of bank, exporter and Iraqi records, USDA has reached some initial conclusions about past conduct of the Iraq GSM-102 program. They are as follows:

(1) USDA analysis indicates that during the period 1985-1987, sale prices to Iraq for corn, rice and sugar under the GSM-102 program were much higher than price levels in other markets. Price levels paid by Iraq appear to be at least \$10-20/MT higher than benchmark world prices for rice and corn, and \$15-40/MT higher for sugar. Consistently high bid prices in the public tenders reviewed suggest that exporters perceived Iraq to be a high risk market during the Iraq-Iran war. In addition, Iraq's policy of seeking freight financing which few suppliers were able or willing to provide, also appears to have raised price levels. In the case of sugar, it appears that the tight supply of refined sugar that could be certified as U.S. origin, as required under the GSM program, also accounted for a substantial portion of the high prices bid. Records indicate that there were very few U.S. suppliers participating in the Iraq GSM market, and all were bidding high prices.

(2) In some of the higher priced transactions, a portion of the high reported FOB prices -- approximately \$8-10/MT -- represented an artificial reallocation by the exporter of either freight costs or freight financing charges. In at least two cases reviewed, it is clear the FOB price reported by the exporter (Entrade) to CCC for guarantee purposes was \$8-10 higher than the FOB portion of a C&F bid made by that exporter to by Iraq. In two other cases, the FOB price reported to CCC by Entrade was \$8-10 higher than Iraq's FOB counteroffer. Iraq agreed to the request of the exporter to open FOB letters of credit at these higher prices. It appears that this "allocation" technique was used to shift some of the freight financing of a C&F sale to the loan guaranteed by CCC during a time period in which CCC did not permit financing of freight under its guarantees. Inaccurate information may have been submitted to CCC in connection with certain of the GSM transactions described above.

(3) The USDA administrative review uncovered no evidence to suggest that there has been diversion of commodities sold to Iraq. The lack of "proof of arrival" in either bank or exporter records appears to be linked to the complexity of overland shipment system that Iraq had to develop after its Basra port was closed during the height of the Iran-Iraq war. Although it appears that Iraq maintains records to establish proof of arrival for its GSM purchases, actual confirmation of this would involve

the translation (from Arabic) and compilation of literally hundreds of documents including trucking manifests, customs documents and warehouseman lists.

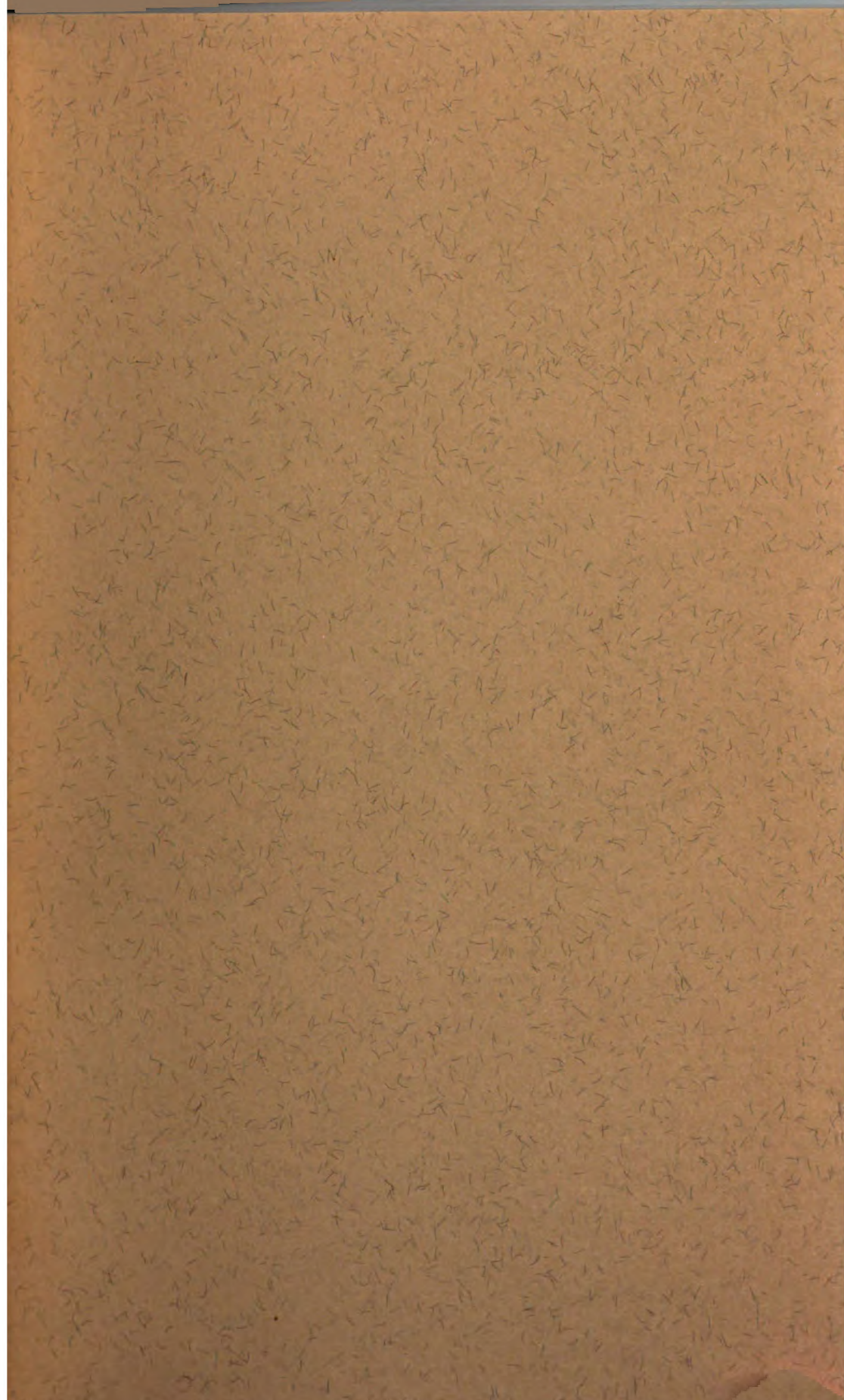
(4) On several occasions during the period 1987-1989, state enterprises of the Government of Iraq appear to have requested "after sales services" from U.S. exporters, either in the form of requests for additional agricultural products, for non-agricultural products (e.g., truck parts or tires), for cash rebates or discounts, or for use of designated Iraqi shipping companies. Iraq has identified several exporters who apparently provided after sales service in response. At this juncture, additional investigation is merited to determine the precise extent of this practice. The information already obtained has been turned over the USDA-OIG with request for further investigation. Iraq's Deputy Minister of Trade has provided CCC with a letter confirming that the Government of Iraq has instructed all of its state enterprises not to request or accept after sales services in connection with any future GSM contract.

(5) Iraq has also requested some exporters to assume responsibility for paying a domestic Iraqi "stamp tax" in connection with GSM transactions. Iraq's Deputy Minister of Trade has confirmed in a letter to CCC that Iraq has changed its policy and will, in the future, specifically exempt GSM transactions from application of this tax.

The results of this administrative review suggest that USDA conduct additional inquiry in two key areas: first, the extent and precise reasons for high pricing in certain transactions; second, the extent to which "after-sales services" have been provided in connection with GSM-guaranteed sales, and whether the port values of those sales were properly reported when GSM guarantees were sought. Note that this administrative review proceeded on limited information regarding the EML investigation in Atlanta and focused largely, although not exclusively, on transactions by one exporter. Additional information is being developed in the course of the EML investigation in Atlanta which may shed further light on these and other GSM program issues.

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**THE BANCA NAZIONALE DEL LAVORO (BNL)
SCANDAL AND THE DEPARTMENT OF
AGRICULTURE'S COMMODITY CREDIT
CORPORATION (CCC) PROGRAM FOR IRAQ—
PART 2**

**HEARING
BEFORE THE
COMMITTEE ON BANKING, FINANCE AND
URBAN AFFAIRS
HOUSE OF REPRESENTATIVES
ONE HUNDRED SECOND CONGRESS
SECOND SESSION**

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MARY ROSE OAKAR, Ohio	DOUG BEREUTER, Nebraska
BRUCE F. VENTO, Minnesota	THOMAS J. RIDGE, Pennsylvania
DOUG BARNARD, Jr., Georgia	TOBY ROTH, Wisconsin
CHARLES E. SCHUMER, New York	ALFRED A. (AL) McCANDLESS, California
BARNEY FRANK, Massachusetts	RICHARD H. BAKER, Louisiana
BEN ERDREICH, Alabama	CLIFF STEARNS, Florida
THOMAS R. CARPER, Delaware	PAUL E. GILLMOR, Ohio
ESTEBAN EDWARD TORRES, California	BILL PAXON, New York
GERALD D. KLECZKA, Wisconsin	JOHN J. DUNCAN, Jr., Tennessee
PAUL E. KANJORSKI, Pennsylvania	TOM CAMPBELL, California
ELIZABETH J. PATTERSON, South Carolina	MEL HANCOCK, Missouri
JOSEPH P. KENNEDY II, Massachusetts	FRANK D. RIGGS, California
FLOYD H. FLAKE, New York	JIM NUSSLE, Iowa
KWEISI MFUME, Maryland	RICHARD K. ARMEY, Texas
PETER HOAGLAND, Nebraska	CRAIG THOMAS, Wyoming
RICHARD E. NEAL, Massachusetts	SAM JOHNSON, Texas
CHARLES J. LUKEN, Ohio	
MAXINE WATERS, California	BERNARD SANDERS, Vermont
LARRY LaROCCO, Idaho	
BILL ORTON, Utah	
JIM BACCHUS, Florida	
JAMES P. MORAN, Jr., Virginia	
JOHN W. COX, Jr., Illinois	
TED WEISS, New York	
JIM SLATTERY, Kansas	
GARY L. ACKERMAN, New York	

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Hearing held on:
May 21, 1992

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(III)

INTRODUCTION

This hearing record contains a chronology of documents related to the National Advisory Council on International Monetary and Financial Affairs' (NAC) consideration of Department of Agriculture credit guarantees for Iraq. The NAC is an inter-agency group responsible for the policies and practices of agencies that provide financial assistance to foreign countries. Official NAC membership is limited to the Treasury Department (which chairs the panel), Federal Reserve, State Department, Agency for International Development, Commerce Department, Export-Import Bank, and the U.S. Trade Representative. While it is not an official member of the NAC, the Department of Agriculture (USDA) submits all of its credit and credit guarantee proposals to the group for consideration. The NAC's decisions are technically not binding. However, USDA has never proceeded with a program that was voted down by the NAC.

The document chronology begins in 1983, when the Department of Agriculture began issuing credit guarantees to Iraq through the General Sales Manager (GSM) program. During the 1980's, the GSM program for Iraq grew steadily in size, reaching the \$1 billion level by fiscal year 1988. The documents show that the program's size was consistently opposed within the NAC by the Treasury Department and the Federal Reserve. Those agencies believed that Iraq's awful record on debt repayment (which included numerous delinquencies on loans guaranteed by another government agency, the Export-Import Bank) made the program's level too risky for the U.S. taxpayer. However, the Department of Agriculture -- with the strong support of the State Department -- always was able to secure a majority of NAC votes to approve its proposals. The documents reveal that the State Department pushed for high levels of U.S. financial assistance for Iraq even though that country was not creditworthy, was abusing the GSM program, and was known to be developing weapons of mass destruction.

Iraq's atrocious human rights record never proved to be a major stumbling block to the Agriculture and State Departments' efforts to increase its allocation of credit guarantees. Even in 1988, when Saddam Hussein used chemical weapons to murder 5,000 Kurdish civilians, the Reagan Administration decided to continue providing Iraq with over \$1 billion in guarantees. Copies of human rights reports on Iraq are contained in this hearing record.

The August 1989 raid on the Atlanta branch of the Banca Nazionale del Lavoro exposed a fraudulent scheme to loan billions of dollars to Iraq. Many of these loans were guaranteed through the GSM program, and the criminal probe uncovered evidence that Iraq was abusing the program. Concerns about the BNL scandal and about Iraq's still-deteriorating creditworthiness were overridden in the NAC, however, when the State Department announced that President Bush had signed a directive mandating closer political and economic ties with Iraq. Using the President's secret directive as a justification, the State Department won approval for another \$1 billion program for Iraq.

1983

OR NAC USE ONLY

National Advisory Council

On International Monetary and Financial Policies

Action 83-34
February 1, 1983Subject: CCC - Proposed \$230 Million Blended Credit Program
-- IraqAction:

The National Advisory Council advises the Department of Agriculture that it offers no objection to the following Blended Credit Program:

		(\$ Millions)
Amounts:	GSM-5 Direct Credits	46.0
	GSM-102 Guarantees	184.0
		<u>230.0</u>
Purpose:	For a Blended Credit Program covering export credit sales of U.S. wheat, barley, eggs and rice, corn seed, soybean meal and protein feed, secured by foreign bank letters of credit	
Terms:	Three (3) years	
Proposed Export Authorization Period:	Through September 30, 1983	

The foregoing is the text of an action of the National Advisory Council on International Monetary and Financial Policies approved on February 1, 1983.

Robert S. Watson
Robert S. Watson
Secretary

References:
NAC Document 83-22
Staff Committee Minutes 83-5 and
83-6



DEPARTMENT OF STATE

Washington, D.C. 20520

F.1/c

February 3, 1983

TO: EB/FPG

FROM: L/EB

SUBJECT: CCC-Blended Credits for Sale of
Wheat to Iraq and Syria

At your request, I have attempted to identify statutes which may restrict the authority of the Commodity Credit Corporation to provide financial assistance for certain transactions with Iraq and Syria. This assistance would provide favorable financing by means of the blended credit program for the sale of wheat to these two nations.

My legal research did not include evaluation of the authority to provide blended credits generally. Rather, my search was limited to identifying restrictions which would specifically apply to Iraq and/or Syria. However, I did speak to of the U.S.D.A. General Counsel's office to assure myself that they had carefully evaluated the general authority of CCC in this area.

I reviewed the following statutes:

- (1) Commodity Credit Corporation Charter Act;
- (2) Omnibus Reconciliation Act of 1982;
- (3) Export Administration Act of 1979;
- (4) Foreign Assistance Act of 1961, as amended;
- (5) Foreign Assistance Appropriation Act of 1979.

I also reviewed the index of Legislation on Foreign Relations Through 1981 in an effort to identify other pertinent statutes.

DEPARTMENT OF STATE		IS/FPG/COR	Date: 7/9/92
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PA Exemptions	<input type="checkbox"/> DOWNGRADE TS to	<input type="checkbox"/> S or <input type="checkbox"/> C OADR	

- 2 -

To the best of my knowledge, listed statutes would constitute the sources for any restrictions applicable to transactions with specific nations such as Iraq and Syria. My review indicates that none of the statutes would bar or otherwise restrict the contemplated transactions. They are either totally silent with respect to country-specific restriction (i.e., numbers 1 and 2); dependent on an existing list of countries to whom exports are barred (i.e., number 3); or dependent upon the use of appropriated funds (i.e., numbers 4 and 5). I note that my determination regarding the Foreign Assistance Act of 1961 is based upon the opinion of

that
that Act is inapplicable, with which I concur on the basis of my independent review. I also note that my determination is based upon the indication of that the blended credit program does not involve appropriated funds, but rather draws upon the non-appropriation borrowing authority of CCC.

IAC USE ONLY

National Advisory Council

On International Monetary and Financial Policies

Action 83-92
March 2, 1983**Subject: CCC - Proposed \$35 Million Blended Credit Program**
-- Iraq**Action:**

The National Advisory Council advises the Department of Culture that it offers no objection to the following Blended Credit Program amendment:

		(\$ Millions)
Amounts:	GSM-5 Direct Credit	7.0
	GSM-102 Guarantees	28.0
		\$35.0 (amendment)
Guarantor:	Rafidian Bank and other eligible banks	
Purpose:	For a Blended Credit Program covering export credit sales of U.S. corn, hybrid seed corn, soybean meal, and protein concentrate, secured by foreign bank letters of credit	
Terms:	Three years	
Proposed Export Authorization Period:	Through September 30, 1983	

The foregoing is the text of an action of the National Advisory Council on International Monetary and Financial Policies approved on March 2, 1983.

Robert S. Watson
Robert S. Watson
Secretary

References:
Document 83-71
Staff Committee Minutes 83-10

: NAC USE ONLY

National Advisory Council

On International Monetary and Financial Policies

Action 83-291

August 30, 1983


Subject: CCC - Proposed \$130 Million Export Credit Sales
Guarantee Program
-- Iraq

Action:

The National Advisory Council advises the Department of Agriculture that it offers no objection to the following GSM-102 export credit sales guarantee program:

Amount:	\$130 million
Guarantor:	Rafidian Bank and/or other eligible bank
Purpose:	For guarantees covering export credit sales of wheat (\$100 million) and tobacco (\$30 million) secured by foreign bank letters of credit
Terms:	Three (3) years
Proposed Export Authorization Period:	Through September 30, 1984

The foregoing is the text of an action of the National Advisory Council on International Monetary and Financial Policies approved on August 30, 1983.



Robert S. Watson
Secretary

References:
 NAC Document 83-295
 Staff Committee Minutes 83-36

1984



MEMORANDUM

☐ ACTION

☐ BRIEFING

☒ INFORMATION

FOR: Assistant Secretary Mulford

DATE:

APR 5 1974

FROM:

SUBJECT: *Eximbank*
Denies Credit for Iraq Power StationIraq Power Project

Eximbank denied a request from Westinghouse to support exports totaling \$159 million for a thermal power station near Al Mussaib in Iraq. Eximbank reasoned that the transaction did not meet the legislative requirement of "reasonable assurance of repayment" because of (1) country financial conditions brought about by the war with Iran, and (2) uncertainty that financing could be arranged for the remaining \$623 million in project costs. *State* and *USIA* argued mildly in favor of the transaction for political and commercial reasons.

Eximbank has decided against offering medium-term and long-term support in Iraq, unless some form of external security is arranged. *Eximbank* believes that external security can and will be arranged for projects crucial to Iraq such as the proposed pipeline.

C

FOR NATIONAL ADVISORY COUNCIL
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NATIONAL ADVISORY COUNCIL

STAFF COMMITTEE

Minutes
Meeting 84-42
October 16, 1984

Agencies:

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FOR NATIONAL ADVISORY
COUNCIL USE ONLY

NAC Meeting 84-42
October 16, 1984
Page 1

(h) Iraq - Blended Credit Program - \$30 Million (Wheat Flour) (NAC Doc. 84-189)

The *Agriculture* representative reported that negotiations with the Iraqis were underway, an important element of which had been explaining the current U.S. guidelines on the use of agricultural export credit subsidies, which had been adopted since Iraq last received such a credit. He explained that France had established itself as a supplier of flour to Iraq through subsidized prices. On quality grounds, Iraq would prefer U.S. hard durum wheat flour.

The *USTR* representative pursued a series of questions on the Iraqi flour market and the nature of French competition, on which the *Agriculture* representative promised to supply available information.

The *Commerce* representative asked if the proposed credit for Iraq was not aimed more at market penetration than preserving market share. The *Agriculture* representative replied that the purpose of the proposal covered both those objectives. It was, in any case, clear that Iraq was increasing its imports of flour. Also in response to a question from *the Agriculture* representative said that Jamaica was a possible additional candidate for a blended credit program.

The *Eximbank* representative raised the question of Iraq's projected debt service ratio, but elicited little response on this matter at the meeting.

Further discussion of the proposed blended credit for Iraq was deferred until the next meeting, when votes on the proposal were called for.



Memorandum



FOR

DATE:

OCT 17 1984

FROM:

SUBJECT: CCC Export Credit Sales Guarantees to Iraq

This is to inform you that the Department of Agriculture is proposing that another \$30 million in CCC export credit guarantees be made available to Iraq in FY 1985 -- on top of the \$633 million already agreed to -- and to seek your guidance on a recommended position. Iraq's access to CCC credit guarantees has grown rapidly over the past three years, and has done so with the strong support from State. The matter, comes before the MAC on Tuesday, October 22.

Iraq's economic situation remains somewhat clouded by the continuation of the war with Iran and soft prices in international oil markets. Over the past three years, Iraq has run up cumulative current account deficits totaling an estimated \$40 billion. These deficits have been financed by drawing down foreign exchange reserves, foreign credits -- primarily from the Arab gulf countries, and by rescheduling foreign debts with virtually all official creditors that have diplomatic relations with that country. Nevertheless, Iraq has remained current on all obligations due the USG, and its current and medium-term outlooks are much more sanguine now than they were just six months ago. Iraq is known to be sitting on the second largest reservoir of proven oil reserves among OPEC producers, and trans-country pipelines now in the works will in two years expand Iraq's export potential beyond that which existed prior to the beginning of the Iran-Iraq war.

Recommendation: That Treasury go along with the additional \$30 million, but go on record as not being able to support any further increases for this fiscal year until the economic situation in Iraq becomes clearer.

Agree (initialed)

Disagree

Amend

LIMITED OFFICIAL USE

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RNAME						
S / DATE						

12.1 (11-81) OBSOLETE OF F 10-01.2 WHICH MAY BE USED UNTIL STOCK IS DEPLETED

1985



Memorandum



FOR: UNDER SECRETARY SPRINKEL

DATE: JAN 15 1985

FROM:

SUBJECT: CCC for Egypt and Iraq

This is to let you know that, ^{As} ~~Agriculture~~ ^{may call you concerning} (1) an additional \$50 million on one-year terms in CCC for cotton for Egypt and (2) \$152 million on one-year terms for meat for Iraq.

We recommend that you (1) support the additional \$50 million for Egypt because of the one-year term, but strongly urge ~~not~~ to inform Egypt of our favorable decision until President Mubarak visits the United States in March, and (2) advise against an additional \$152 million for Iraq because of our rapidly growing exposure to Iraq and the short-term economic difficulties it is facing.

DISCUSSION

Egypt

	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	SECRETARY
OFFICE CODE						
SURNAME						
TIALS / DATE						

F 89-82.1 (11-81) OBSOLETE OF F 10-01.3 WHICH MAY BE USED UNTIL STOCK IS DEPLETED

Iraq

Dr. Paul [With allocations exceeding \$650 million in FY 1984 and 1985, CCC's exposure to Iraq has grown dramatically. G is turning down requests from other commodity groups for additional credits for Iraq. However, it is anxious to go forward with \$152 million on one-year terms for meat largely for political reasons. (This would be the first time that meat has been exported under CCC.)]

Although the one-year term being offered for the first meat exports under CCC would be a nice precedent to establish, we would prefer that G reduce the allocations for other commodities rather than seek an increase for meat. G is reluctant to do so, however, when other commodities are already asking for more. Additionally, G staff is doubtful that the sale will actually happen because U.S. meat exports are generally not price competitive.

*C rec'd
I [unclear]* [Although Iraq has been deferring short-term payments to its other creditors, it has been paying the United States. Nevertheless, given the short-term economic difficulties it faces, we have strong doubts about its ability to service its rapidly growing debts to CCC.]

If [unclear] feels that CCC must go ahead with the proposed deal for political reasons, you may want to press him to agree that (1) there will be no further allocations for Iraq in FY 1985, even on one-year terms, and (2) if the meat deal falls through the allocation will be cancelled; i.e., not used for other commodities.

RECOMMENDED POSITIONEgypt

Iraq

- Treasury advises against increasing exposure to Iraq, even on one-year terms.
- Although Iraq has been paying the United States promptly, it is deferring even short-term payments to other creditors. We have allocated more than \$650 million on three-year terms to Iraq in both FY 1984 and 1985. Given the short-term economic difficulties Iraq faces, we are concerned about its ability to continue paying CCC.
- Would it be possible to reduce the level of guarantees allocated to other commodities and use those funds for meat?

(Fallback Position to be used only if _____ makes political argument for going ahead with meat proposal)

- Treasury would reluctantly support the proposal providing we agree that:
 - Must be on one year terms;
 - No further allocations for Iraq in FY 1985, even on one-year terms; and
 - The \$152 million on one-year terms can only be used for meat. If the deal falls through it cannot be used for other commodities.



Memorandum

☒ ACTION

☐ BRIEFING

☐ INFORMATION

FOR: BERYL W. SPRINKEL

DATE: FEB 07 1965

FROM:

SUBJECT: CCC guarantees for Iraq

This is to inform you that on January 25 CCC announced an additional \$47 million in CCC guarantees for Iraq on 3-year terms despite Treasury opposition. CCC staff is bullish on Iraq, and there may be more proposals in the wings. We therefore recommend that you send the attached letter to *Secretary* ~~Block~~ outlining our concerns about Iraq's economic prospects and opposing additional CCC for Iraq.

Discussion

On January 15, *Dept. of Agriculture* called to get your views on financing \$152 million in meat exports to Iraq on one-year terms. You told him that Treasury advises against increasing exposure to Iraq even on one-year terms and suggested that he try to reallocate from the existing program to finance most of the meat. *Block* said he would look into it, but asked you to consider a small increase in Iraq's allocation because of the meat sector's political clout.

Agriculture The meat deal fell through, but bolstered by *State Dept.* optimistic assessment of Iraq's economic outlook, USDA proposed to finance \$47 million in assorted other commodities requested by Iraq. Many of these are high value-added commodities which are not generally exported under the GSM-102 program.

A major component of the program was the financing of about 100,000 tons of U.S. refined sugar, to be replaced in the U.S. market by sugar imports over current quota levels. Although it is apparently legal under the current sugar re-export program, this seems to us a perversion of the program intended to sap Cuba and the EC, which currently supply 75 percent of Iraq's sugar, by in effect financing CBI sugar exports. Without this sleight of hand substituting imports for more expensive U.S. sugar, there is no way that U.S. sugar would ever be exported. Financing the deal under CCC will no doubt call attention to it and raise the fears of sugar suppliers which are unlikely to benefit from the program (Brazil, Turkey, and the Philippines, for example) that the United States has begun a program to subsidize or dump sugar exports.

INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	SECRETARY
OFFICE CODE					
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60-021 (7-61) OBSOLETE AS OF 10-01-63 WHICH MAY BE USED UNTIL STOCK IS DEPLETED

- 2 -

Treasury staff voted against the proposal, recommending that the sugar be dropped altogether and the remaining \$27 million be reallocated from the existing program. *agreed*
decided to announce the program despite our opposition. *agreed*
Iraq is seeking an additional \$100 million for lumber and may ask for more guarantees for wheat.

The letter we have drafted

- urges that there be no more sugar financed under CCC;
- details our concerns about Iraq's economic prospects;
- opposes further CCC increases for Iraq; and
- says that you look forward to continued cooperation on future problems

Recommendation

That you sign the attached letter.



UNDER Secretary for Monetary Affairs

WASHINGTON, D.C. 20230

FEB 8 1985

Dear *Secretary Black*:

I understand that CCC recently announced an additional \$47 million in GSM-102 guarantees on three-year terms for Iraq. As you know, Treasury voted against the proposal in the NAC. We recommended instead that the \$20 million for sugar be dropped and the remaining \$27 million be reprogrammed from the \$633 million which has already been allocated to Iraq this year.

I appreciate CCC's desire to support high value-added exports which have not traditionally benefited from the GSM-102 program. Nevertheless, I regret that it was necessary to increase CCC's exposure to Iraq to do so. Moreover, while the sugar proposal may be technically legal it can be viewed in two ways: either we are using GSM-102 to finance, in effect, increased CBI exports or we are using subterfuge to subsidize or dump U.S. sugar on the world market. We hope this is the last time GSM-102 guarantees will be used this way.

I am concerned also by our increasing exposure to Iraq. Iraq's current and prospective financial situation remains unsettled despite its having narrowed its current account deficit (via import compression of 50 percent) and having begun two new pipeline projects that promise expanded future export capacity. Based on our projections, which take into account large aid inflows from Saudi Arabia and Kuwait, we conclude that Iraq will still come up more than \$1 billion short of its exchange needs to amortize the estimated \$2.5 billion in external debt due this year. This shortage cannot be made up by drawing down reserves, which are believed to be already at an irreducible minimum.

More than a few bankers and foreign government officials close to the Iraqi financial scene are convinced that Iraq will be forced to reschedule at least some part of its external debt this year. Now that we have reestablished diplomatic relations with Iraq, we too could be a candidate for rescheduling.

Iraq's oil revenue outlook is clouded. In line with OPEC, it just reduced its oil export price by \$1/bbl, and conditions in the oil market may well continue to deteriorate.

- 2 -

Moreover, the extent to which Iraq can carry through with its plans to boost the volume of its oil exports is uncertain. While it hopes to roughly double its export capacity during the next two years, only the first phase of its 500,000 b/d export pipeline through Saudi Arabia is underway. Even if its other pipelines are eventually completed, OPEC might oppose allowing increases in its output quota.

Indeed, for a variety of reasons Iraq's oil revenues could easily prove inadequate to meet its growing appetite for imports, which is stimulated by domestic political pressures seeking sustained real economic growth. Or, of course, its war with Iran could worsen -- placing even greater demands on its dwindling financial reserves.

In sum, we believe the financial situation in Iraq continues to warrant a cautionary posture. CCC credits to Iraq have grown dramatically since 1982. We think it prudent, therefore, to oppose further CCC increases in FY 1985.

I look forward to continuing our past practice of working toward mutually agreeable solutions when problems such as this arise.

Sincerely,

BERG W. SPRINKEL
(S-4)

The Honorable *John Block*
Secretary of Agriculture, Dept.

Washington, D.C. 20250

1986

UNCLASSIFIED

EXIM:C.N.FERGUSON:AMM
5-05-86 566-8896

EXIM:ROBERT L. CHARANELLA

ROUTINE BAGHDAD

N/A

BPRO, IZ

RAFIDAIN PAYMENT DELAYS

1. THREE EXIMBANK INSURED LETTERS OF CREDIT ISSUED BY RAFIDAIN BANK ARE NOW SERIOUSLY OVERDUE. THE U.S. EXPORTER, UNIVERSAL MANUFACTURING INCORPORATED, PRESENTED THE APPROPRIATE DOCUMENTS TO MANUFACTURERS HANOVER TRUST COMPANY NEW YORK /MHT/ FOR PAYMENT MARCH 14, 1986; MHT RETURNED THE DOCUMENTS TO UNIVERSAL MARKED /NON-PAYMENT/. APPARENTLY RAFIDAIN HAS REACHED ITS OVERDRAFT LIMIT WITH MHT AND THUS UNCONFIRMED LETTERS OF CREDIT ARE NOT BEING HONORED.
2. UNIVERSAL HAS ASKED ITS LOCAL BANK, VALLEY NATIONAL BANK OF PHOENIX, TO APPROACH RAFIDAIN DIRECTLY FOR PAYMENT. THE COMPANY HAS ALSO REQUESTED EXIMBANK ASSISTANCE IN THIS MATTER.
3. EXIMBANK WOULD APPRECIATE IT IF POST COULD LOOK INTO THIS SITUATION, AS RAFIDAIN MAY NOT BE AWARE THAT THESE ARE EXIMBANK INSURED OBLIGATIONS THAT ARE NOT BEING PAID. DETAILS OF THE L/CS ARE AS FOLLOWS:

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RAFIDAIN L/C NO. - - - - - AMOUNT - - - - - DUE DATE

- - 8/17237	- - - -	US DLRS 50,010.53	- - MARCH 14, 1986
- - 8/17236	- - - -	US DLRS 35,047.48	- - MARCH 14, 1986
- - 8/17108	- - - -	US DLRS 81,345.33	- - MARCH 14, 1986

4. ANY UPDATE POST CAN PROVIDE IN REGARD TO THE CURRENT ECONOMIC SITUATION IN IRAQ AND TO RAFIDAIN BANK PAYMENT SITUATION IN PARTICULAR WOULD ALSO BE APPRECIATED.

cc: Williams, Charamella/Anderson, Hunt, Secretary's Office,
Ferguson, FILES

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OFFICIAL RECORD COPY

NATIONAL ADVISORY COUNCIL

STAFF COMMITTEE

Minutes
Meeting 86-20
May 20, 1986

Agrees:

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FOR NATIONAL ADVISORY
COUNCIL USE ONLY

NAC Meeting 86-20
May 20, 1986
Page 3

(c) Iraq - CCC sale of sugar \$25 million
(NAC Dec. 86-88)

The *Agriculture* representative said the proposed sale to Iraq would enable the CCC to sell off its stock of sugar, which it has been unable to dispose of in the U.S. market. At Iraq's request, Agriculture has offered payment over three years. Referring to the NAC's approval of \$500 million in GSM-102 credit guarantees for Iraq in FY 1986, he said the proposed sale would count against that ceiling, and so, would not increase its previously approved exposure in Iraq.

The *Treasury* representative said prospects for timely payment from Iraq were extremely poor. *Treasury representative* would reluctantly support the sale, but she would advise allowing the previously authorized amount for credit guarantees for Iraq to expire unutilized.

The *Eximbank* representative said Iraq was not creditworthy and the Bank opposed this credit sale.

The *Agriculture* representative replied that Iraq was still current on its payments to the CCC. The minute it was not, he said, CCC credit sales to that country would cease.

Council approval of the proposed sale of sugar to Iraq was obtained (*Eximbank* voting against) on the basis of votes cast by Staff Committee members on behalf of their Principals at, or shortly after, the meeting (NAC Action 86-119, May 20, 1986).

ES SENSITIVE

UNDER SECRETARY OF STATE
FOR ECONOMIC AFFAIRS

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Washington 6/24 NO'S REVIEW	
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Col. B	Transferred to MARS/PPG with additional access controlled by S/S
Col. C	Captain and custody retained by S/S
Reviewed by:	<i>[Signature]</i>
Date:	24 JUL 86

July 15, 1986

MEMORANDUM FOR THE SECRETARYSubject: NEA's Memorandum on Iraq
ES Sensitive. 8621712

You have just received a memorandum on Iraq in which there was a recommendation that you urge Exim Chairman John Bohn to approve a \$50 million medium-term credit agreement.

I believe it would be a mistake to "jaw bone" Bohn on this issue. Iraq is in arrears on Exim-backed letters of credit and has been rescheduling even short-term credits.

Exim's statute requires the Bank's Board of Directors to determine that transactions offer "reasonable assurance of repayment" before approving them. Under present circumstances, the proposed \$50 million facility for Iraq does not offer that assurance. Asking Exim Bank to approve that facility now would therefore be asking that the Board act inconsistently with its mandate.

If we were, nonetheless, to ask the Board to approve the facility, we would face substantial downside risks:


- we risk eroding our excellent relations with the Bank (the autonomous Board always bristles at "outside" interference);
- our future appeals to Exim on more compelling cases (e.g., Mexico) might be made more difficult as a result;
- we would bear the onus for creating future Iraqi repayment problems.

SECRET/SENSITIVE
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3. DENY
4. DELETE
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6. REWRITE
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Pressing Exim on this facility is neither the only, nor the best, means of demonstrating our support for Iraq. Other alternatives, particularly CCC programs (including the new intermediate credit program), would be more appropriate for helping the Iraqis.


Allen Wallis

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NATIONAL ADVISORY COUNCIL

STAFF COMMITTEE

**Minutes
Meeting 86-28
July 13, 1986**

Agrees:

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COUNCIL USE ONLY

MAC Meeting 86-28
July 15, 1986
Page 1

1. AGRICULTURAL EXPORT CREDIT SALES

(a) Iraq - CCC Dairy Sales \$11.3 million
(nonfat dry milk and butteroil)

The *Agriculture* representative said it was proposed to reduce the FY 1986 GSM-102 coverage for Iraq, previously approved by the MAC (Actions 85-225), by the amount of this sale.

In response to questions from the *State* representative, the *Agriculture* representative said she thought the Government of Iraq must be aware of the swap of CCC direct credit sales for GSM-102 guarantees since it had most likely initiated the request for such sales. She said the nonfat dry milk and butteroil would be sold at world market prices.

The *Eximbank* representatives remarked on Iraq's deteriorating creditworthiness and asked about Agriculture's exposure in that market. The *Agriculture* representative replied that about one-half (\$250 million) of this fiscal year's GSM-102 coverage had been utilized to date.

The *Treasury* representative supported the proposed credit sales on the condition that these sales did not increase Agriculture's total potential exposure in Iraq, as previously approved by the MAC.

Council approval of the CCC direct sales to Iraq was obtained on the basis of votes cast by Staff Committee members on behalf of their Principals at, or shortly after, the meeting (MAC Action 86-173, July 15, 1986).

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UNCLASSIFIED

 (13)
 United States Department of State
 Washington, D. C. 20520

BRIEFING MEMORANDUM

S-3

TO: P - Michael W. Arnacost
 FROM: IEA - Richard W. Murphy
 SUBJECT: IRAQ: CPFG Meeting of Wednesday, July 23

THE SETTING

General concern in Washington over Iraq's ability to sustain its defenses has substantially risen over the past three weeks, focussing particularly on the Iraqi battlefront defeat at Mehran in early July. In addition to that setback, much speculation has risen around the unexpected emergency Baath Party meeting in Baghdad July 10, the first since the grim days of 1962. In the past, such meetings have been called at critical junctures when the leadership of Saddam Hussein has been under particular stress. We do not know much of the circumstances which led up to the meetings, though both our internal criticism of Saddam's management of the war and the economy may have been the root motivation. In the event, Saddam appeared to demonstrate complete formal control of the Party, which reelected its current leadership, along with three additional supporters of Saddam. One prominent Shi'a was dropped.

POLICY PERSPECTIVE

Any differences of assessment on these recent military and political developments are interesting but of secondary importance. The essential point is incontrovertible: The trends in the war, developing at an ever faster pace since the Iranian success at Faw in February, underscore our long-held view that the longer the war continues, the greater the risk of an Iraqi defeat, whatever its form may take. For policy purposes this leads back to a review of possible steps the USC might take to bolster the Iraqi will to resist, both psychologically and militarily. Additionally, it raises questions as to whether the U.S. can do more to pressure Iran to wind down -- or end -- the war. As a general proposition, it is prudent to assume the worst in war trends and work back from that assumption, attempting to make the worst case (an outright Iranian victory) less likely.

 Declassified by: Frank Machak
 Director, Office of R.I. Privacy
 and Classification Review
 June 1, 1992

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It has become clear, in the light of the Iraqi financial crisis, that a USG decision to let developments in our bilateral relations take their own course will mean in practice a constriction of the relationship. If the sustenance of the Iraqi will to defend itself is as important as we consider it, then we must intervene on policy grounds to arrest the constriction of the relationship, at a minimum, and to take steps to broaden the relationship where it is possible and prudent to do so. Each such step carries risks and has costs, including substantial complications in relations with the Soviets are a special case, but in the context of the war there are few risks for the U.S. in pushing to further engage the USSR.

It is time to review how deeply the USG assesses its national security interests to be affected by the supply of armaments to Iran. We have actively, and with much success, pursued Operation Staunch since 1983. We have blocked and diverted sales to Iran from many of our friends and allies. In the interim the Iranians have established important supply relationships with North Korea, Eastern European countries, Syria and Libya. We have recently become aware of substantial new sales agreements and deliveries of arms to Iran. Further, there are increasing indications that arms sales may be a part of the ongoing discussions. If we are unable to impede Iranian acquisitions from these sources, with their major and diversified arms industries and sophisticated products, the character and nature of the war may be changed dramatically over time. We also have specific objections to certain items, some of which have already been delivered.

DIPLOMATIC INITIATIVES

As always, we are having ongoing discussions with several governments relating to Operation Staunch. At present we have particularly sensitive and complex exchanges going with

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-3-

U.S.-IRAQ RELATIONS

U.S.-Iraq relations are thin and likely to remain that way. Iraq's military setbacks and its continuing financial difficulties have acted to inhibit, possibly torpedo, what we had planned to orchestrate this year: an enhanced commercial relationship. The U.S. is not a major player in either Iraq's trade or financial relationships. Iraq is heavily dependent on Saudi and other Arab assistance, and in 1985 received over \$3 billion in concessional loans. CCC agricultural credits aside, Japan and Western Europe have provided the bulk of its trade credits. While it is unreasonable to expect a significant expansion in U.S.-Iraqi trade in the current environment, there are additional steps which we can take to reassert our commercial interest in Iraq and, in doing so, make a modest contribution to easing Iraq's immediate financial difficulties. These include

-- EXIM Bank Agreement on Medium-term Credits: Last fall the Iraqis found inadequate Exim's offer to negotiate a \$50 million medium term credit agreement. Now that its financial situation has deteriorated, Iraq is ready to talk. However, it has fallen into arrears on \$3.5 million of Exim-backed letters of credit, and Exim, on risk grounds, has cold feet. The Iraqi Trade Minister was to have been here this week, but has postponed his visit, partly out of concern that no EXIM agreement seemed within reach.

-- Agriculture's CCC Credits: Iraq is expected to fully use its \$500 million CCC (GSM-102) program for FY86. A new program, GSM-103, allows for 3-10 year terms (GSM-102 is for three years at commercial rates). Iraq is scheduled to be declared eligible for \$15 million for a cattle-breeding program under 103. All 103 program amounts are deducted from 102 totals because of a Treasury-imposed ceiling for Iraq of \$500 million exposure. Iraq has an exemplary repayment record on CCC, even in this strapped year. Action needed: On purely financial grounds, we cannot recommend large additional CCC credits for Iraq. While it is current on repayment of outstanding loans, Iraq has poor economic prospects due to the burdens of the war effort and the oil-price decline. Earlier this year Iraq was forced to reschedule loan payments to several European governments because it lacked foreign exchange. For these reasons, we see a high risk of default on CCC credits. U.S. political interests, however, may override these strictly financial

considerations. If so, we recommend that USDA determine whether a higher total ceiling for Iraq, perhaps \$750 million, is feasible; and if so, that Treasury be urged to raise the ceiling as appropriate.

-- Pending Licenses for Export of High Technology: DOD has intervened to block the issuance of licenses to Iraq on several items of symbolic and practical importance, including equipment designed to protect the personal security of the head of state. Sometimes this has been done through bureaucratic procedures, sometimes through personal intervention, based on a stated concern about diversion to the USSR of sensitive technology. DOD has taken this position despite the most recent determination by the intelligence community: "We have no evidence that Iraq has passed controlled Western dual-use equipment to the Soviets or has misdirected equipment to non-authorized domestic users." (In one instance, DOD has gone so far as to encourage Customs to harass an exporter who was holding a valid Commerce license for export to Iraq.) We know of no intelligence which would support DOD's contentions about technology transfer, and the long delays imposed on the licensing process by DOD are an unnecessary and costly embarrassment in our bilateral relations. Action: That the NSC convene an interagency coordination meeting within a week, with the goal of reaching final decisions on outstanding licensing issues, including the

cases, within two weeks.

• Infrared countermeasures (IRCM) for Saddam Hussein's aircraft: The Services and DIA have objected to the sale of the IRCM, which is of substantial symbolic value to the Iraqis and something they requested more than a year ago. The NSC is meeting July 24 to consider an exception. Action: a favorable NSC decision.

-- Commercial and Technology Agreement Pending: As part of his now-postponed visit, the Iraqi Trade Minister had planned to join Secretary Baldrige in formally signing an umbrella commercial agreement. The agreement is limited in substance, but reflects the commitment of both sides to pursue enhanced commercial and technology relations. We will want to get the agreement signed, but only after we have some or all of the pending export licenses in hand, demonstrating USG seriousness.

~~CONFIDENTIAL~~

U.S.-IRAN RELATIONS

-- We are unaware of any identifiable Iranian interest in bettering relations, or opening dialogue with us toward that goal, except as a way of obtaining spare parts for military equipment of U.S. origin.

-- We try to maintain a clear distinction between our objections to Iran's commitment to war and terrorism, and our view that the sovereignty and territorial integrity of Iran (and Iraq) must be preserved.

-- While Iranian alienation from us is profound, we doubt they are inclined to move substantially toward the

~~CONFIDENTIAL~~

IV. U.S.-IRAQ RELATIONS

- U.S.-Iraq relations are thin and, without clear policy direction, likely to remain so. Iraq's military and financial problems have set back, possibly torpedoed, what we had planned as the centerpiece of our relations this year: an enhanced commercial relationship.
- However, there are things we can do to intensify U.S.-Iraq relations and, in the process, add at the margins to the Iraqis' ability to carry on:

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-10-

- o **Agriculture's CCC Credits:** Iraq is expected to use the \$500 million in CCC credits available to it for FY 86. On purely financial grounds, we cannot recommend large additional CCC credits for Iraq, given its poor economic prospects. However, if U.S. political interests override these financial considerations, we recommend that USDA determine whether a higher total, such as \$750 million, is feasible, and that Treasury be urged to raise the ceiling as appropriate.
- o **Export Licenses:** DOD has intervened to block issuance of licenses for U.S. companies to export several items of symbolic and practical importance to Iraq. DOD's concern is technology transfer, despite the judgment of the intelligence community that there has been no evidence of Iraqi transfer of technology to the Soviets. We propose that the NSC convene an interagency coordination meeting within a week, with the goal of reaching final decision on outstanding Commerce licensing issues within two weeks.
- o **Infrared Countersmeasures (IRCM) for Saddam's Aircraft:** The Services and DIA have objected to the sale of the IRCM, which is of substantial symbolic value to the Iraqis. The NDPC is meeting July 24 to consider an exception. We recommend a favorable NDPC decision if feasible.

Department of State

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NOOS-
 FOR AMBASSADOR FROM MEA MURPHY

E.O. 12356: DECL: OADR
 TAGS: PREL, MOPS, US, IZ
 SUBJECT: USG SUPPORT FOR IRAQ DURING THE WAR

REF: BAGHDAD 2925

1. ~~SECRET~~ - ENTIRE TEXT.

2. THE CPPG MEETING HELD JULY 23 REVIEWED THE MILITARY SITUATION, DISCUSSED IN DETAIL THE IRAQI CONDUCT OF THE WAR, EXPLORED POSSIBLE FURTHER STAINCH-RELATED EFFORTS BY US, AND LOOKED AT U.S.-IRAQ RELATIONS, WHICH APPEAR TO BE CONSTRICTING BECAUSE OF IRAQ'S FINANCIAL CRISIS. WE HAVE BEEN TASKED WITH PREPARING AN ACTION AGENDA WHICH WE WILL SUBMIT TO THE NSC EARLY NEXT WEEK FOR INTER-AGENCY COORDINATION. IF YOU HAVE ANY FURTHER SPECIFIC SUGGESTIONS ON BOLSTERING OUR COMMERCIAL/FINANCIAL RELATIONSHIP WITH IRAQ, WE WOULD WELCOME THEM. THERE WILL BE ANOTHER CPPG ON IRAQ IN ABOUT A MONTH.

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PAGE 02 STATE 234618

3. WE TAKE YOUR POINT ABOUT THE IMPORTANCE OF THE EXIM

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NOTES REVIEW	
Cal. A	Caption removed; transferred to O/FADRC
Cal. B	Transferred to O/FADRC with additional access controlled by S/S
Cal. C	Caption and custody retained by S/S
Reviewed by: <i>EK</i> Elijah Kelly Jr.	
Date: <i>1/12/83</i> 19	

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AGREEMENT TO THE IRAQIS. HOWEVER, AFTER ANOTHER THOROUGH REVIEW, WE HAVE DECIDED THAT IT IS NOT APPROPRIATE TO PROCEED FURTHER WITH THE EXIM AGREEMENT NOW. (YOU WILL BE RECEIVING FURTHER BACKGROUND BY POUCH.) WE WILL REVISIT THIS ISSUE WHEN IRAQ'S FINANCIAL SITUATION APPEARS TO BE BETTERING. IN THE MEANTIME, WE ARE LOOKING INTO THE POSSIBILITY OF INCREASING THE CCC PROGRAM. THIS IS A COMPLICATED INTER-AGENCY ISSUE (TREASURY AND AGRICULTURE), AND WE ARE BY NO MEANS ASSURED OF SUCCESS.

4. AS FOR THE POSSIBILITY OF IRAQ'S "BORROWING" U.S.-SUPPLIED JORDANIAN EQUIPMENT, THERE ARE LEGAL RESTRICTIONS ON ANY ACTION OF THAT SORT, BESIDES THE DIFFICULT POLICY QUESTIONS WHICH YOU HAVE POINTED OUT. THEN, TOO, ANY SUCH TRANSFER HAS TO BE NOTIFIED TO THE CONGRESS AND THUS MADE PUBLIC. IN ADDITION, THE EXPERTS HERE BELIEVE THAT THE EQUIPMENT IN QUESTION WOULD NOT HAVE A SIGNIFICANT IMPACT ON THE WAR EFFORT.

5. WE IN MEA ARE IN ESSENTIAL AGREEMENT WITH YOUR REACTION TO THE PROPOSAL TO SEND A SENIOR U.S. EMISSARY TALK WITH SADOAM MUSSEIN. THE IDEA STILL HAS AN IVE BUREAUCRATIC LIFE, HOWEVER. WE HAVE ENCOURAGED THE VICE PRESIDENT TO SUGGEST TO BOTH KING MUSSEIN AND PRESIDENT MUBARAK THAT THEY SUSTAIN THEIR EFFORTS TO CONVEY OUR SHARED VIEWS TO SADOAM REGARDING IRAQ'S USE OF ITS AIR RESOURCES. THE VERY RECENT REPORT (AMMAN 7439) FROM AMMAN ON THAT SUBJECT LEADS US TO CONCLUDE THAT SADOAM MAY NOT BE OPEN TO SUGGESTION. ON THE OTHER HAND, IF SADOAM DOES WHAT HE SAYS HE WOULD DO WITH THE AIR FORCE, THAT WOULD BE A MAJOR PLUS. AMMACOST
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PAGE 03

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NATIONAL ADVISORY COUNCIL

STAFF COMMITTEE

Minutes
Meeting 86-35
September 4, 1966

Agencies:

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NAC Meeting 86-35
September 4, 1986
Page 1

1. AGRICULTURAL EXPORT CREDIT SALES

- (a) Ecuador - FY 1987 CCC GSM-102 \$60 million
- (b) El Salvador - FY 1987 CCC GSM-102 \$30 million
- (c) Iraq - FY 1987 CCC GSM-102 \$500 million
- (d) Jordan - FY 1987 CCC GSM-102 \$55 million

The *Federal Reserve* representative questioned the need for \$30 million in GSM-102 guarantee coverage for El Salvador. She pointed out that the FY 1986 program was for only \$8.2 million and, of that, only \$6.2 million was used. She suggested reducing the amount for El Salvador to \$20 million. She also indicated that PL 480 terms were more appropriate for El Salvador than was GSM-102 guarantee coverage.

The *Agriculture* representative agreed to the reduced amount for El Salvador but indicated additional support for El Salvador might be proposed under other programs.

The *Treasury* representative also expressed concern about Iraq's creditworthiness. She said Treasury would not oppose the proposed \$500 million GSM-102 program for Iraq for 1987, but indicated Treasury would not support any further increase in Agriculture's exposure in Iraq this fiscal year; that is, GSM-102 coverage would have to be reduced by the amount of any proposed GSM-103 coverage for this fiscal year. She noted *Treasury* had approved the same size GSM-102 program last year.

Answering a question from the *Eximbank* representative, the *Agriculture* representative said Agriculture's exposure in Iraq was about \$700 million. He said Iraq was current in its payments to the CCC and that without credit the United States would lose its share of the Iraqi market.

Council approval of the FY 1987 GSM-102 programs for Ecuador, El Salvador, Iraq and Jordan was obtained on the basis of votes cast by Staff Committee members on behalf of their Principals at, or shortly after, the meeting (NAC Actions 86-222, 86-223, 86-224 and 86-225, September 4, 1986).

1987



DEPARTMENT OF THE TREASURY
WASHINGTON

January 14, 1987

January 13, 1987

MEMORANDUM FOR

From:

Subject: Treasury's views on an additional \$200 million in GSM-102 credit guarantees for Iraq for FY 1987

USDA requested the views of the MAC agencies because it is considering additional FY 1987 GSM-102 credit guarantees of \$200 million for Iraq. Treasury advises USDA that it should not go forward with these additional credits for Iraq based on the following financial and economic reasons:

- The US only reschedules official debt in a multilateral framework, while Iraq has agreed to reschedulings only in a bilateral context. In the case of a default on these CCC credits, the potential for a Paris Club rescheduling is slim. Notwithstanding Iraqi opposition to reschedule in the Paris Club, other factors precluding a multilateral rescheduling include the absence of an IMF program and Iraqi refusal to publish current economic data.

- Although Iraq has remained current to CCC, it has rescheduled bilaterally with many of its official creditors including Japan, Italy, Germany, France, Britain, Turkey and Yugoslavia. In addition, it appears that reschedulings during 1983-85 allowed Iraq to postpone needed macroeconomic adjustment, contributing to the severity of the current financing situation. While the lack of current data makes it impossible to assess Iraqi financing needs accurately, external debt is estimated at \$50 billion, of which \$15 billion is owed to OECD countries.

- Iraq's oil revenue outlook is clouded. Despite some potential for increased oil revenues in the future, the effects on the oil market of the recently-concluded OPEC quota agreement, from which Iraq alone considers itself exempt, are uncertain. Iraq's protracted conflict with Iran adds a substantial element of political risk as well.

- Iraq's foreign exchange reserves were estimated at \$30 billion at the start of the war. According to estimates by Wharton Econometric Forecasters Associates, foreign exchange reserves had been drawn down to about \$800 million at the end of 1983. Some further erosion likely occurred in 1984 as the current account deficit for civilian goods was estimated at \$3.2 billion. It appears that current account deficits were

- 2 -

also recorded in 1985 and 1986 and another is expected in 1987. Under a most likely scenario Iraq will continue to face large financing gaps (requiring further reschedulings) for at least the next two to three years.

- Eximbank is "off-cover" for medium and long-term transactions in Iraq. No new short-term cover will be considered as long as delinquencies remain on letters of credit which were insured by FCIA. Arrears to Eximbank peaked at \$5 million, and are currently about \$.6 million.

- CCC exposure in Iraq is nearly \$739 million in credit guarantees on three year terms. The MAC has already approved \$500 million for Iraq under the GSM-102 and 103 programs for FY 1987, 9% of the total budget for these programs. Of this, \$181 million has been announced by USDA and \$15 million has been used through November 1986. An increase to \$700 million would constitute 13% of the total available for FY 1987, the second highest country allocation. Only Mexico's FY 1987 allocation, at \$800 million for the two programs is higher (14.5% of the total amount available). Last year, in FY 1986, the MAC approved \$500 million in credit guarantees for Iraq, of which \$383 million was used.

ccs:

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United States Department of State

Washington, D.C. 20520

February 26, 1987

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MEMORANDUM FOR MR. DONALD P. GREGG
THE WHITE HOUSE

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SUBJECT: The Vice President's March 2 Meeting with Iraqi
Ambassador Nizar Hamdoun

The Department forwards herewith additional background material which may be useful for the Vice President's March 2 meeting with Iraqi Ambassador Hamdoun. This material, supplementing the memorandum of February 14 on the same subject, covers issues which Hamdoun may raise during the meeting.

WT

Since Hamdoun is planning to introduce the issue of Exim credit insurance for Iraq, the Department strongly recommends that, before meeting with Hamdoun, the Vice President telephone Exim Chairman Bohn to discuss the issue. We believe the Vice President should emphasize to Bohn the advantages for U.S. regional policy of resuming short-term credit insurance for Iraq. Recommended talking points for that call to Chairman Bohn are attached.

Melvyn Levitsky
Melvyn Levitsky
Executive Secretary

Attachments:

- Tab 1. Additional Issues to Be Raised
- Tab 2. Talking Points for Hamdoun Meeting: Licensing
- Tab 3. Talking Points for Call to Exim Chairman Bohn.

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DECL: OADR

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MEETING WITH IRAQI AMBASSADOR NIZAR HAMDOON:
MARCH 2, 1987

ISSUES TO BE RAISED (if introduced by Hamdoon)

1. EXPORT-IMPORT BANK CREDIT INSURANCE FOR IRAQ :

In September 1985 Exim offered Iraq a Continuing Guarantee Agreement (CGA), which would have supplemented the short-term credit already available to Iraq with \$50 million in medium-term credit insurance. The Iraqis unceremoniously turned down Exim's offer of a CGA, professing to be insulted by the small amount of money called for in the agreement.

Shortly thereafter, the plunge in oil prices seriously set back Iraq's financial situation. During 1986 the Iraqis missed payments on loans from several Western governments, as well as on letters of credit to suppliers from a number of countries.

Among the unpaid L/Cs in 1986 were several insured by Exim. Under those circumstances, Exim stepped back from its offer of a CGA for medium-term credits, and stopped approving short-term credit insurance for Iraq as well.

In the fall of 1986, Iraq's Rafidain Bank began singling out Exim-insured L/Cs for repayment, and we understand that Rafidain has now paid all overdue L/Cs insured by Exim. Moreover, by means of improved internal procedures and bilateral debt rescheduling arrangements with creditors in third countries, the Iraqis have begun to regain some measure of control over their financial situation. Their short-term financial situation is still difficult, but -- with their great long-term potential based on vast oil reserves -- they should be able to manage in the short term, with an eye to reconstruction when the war winds down.

Considering Iraq's success in containing the latest Iranian offensive, its clear policy decision to give preference to Exim-insured debts, and its long-term potential, we believe that Exim should give favorable consideration to resuming short-term credit insurance for Iraq. The Exim Board plans to meet soon to decide the issue.

We recommend that, before meeting with Hamdoon, you telephone Exim Chairman Bohn to point out the advantages for U.S. policy of a quick Exim decision to resume short-term insurance cover to Iraq. As appropriate, you could then review the results of your call to Bohn during your conversation with Hamdoon.

CONFIDENTIAL

CONFIDENTIAL**2. LICENSING FOR HIGH-TECH U.S. EXPORTS TO IRAQ**

Commerce licenses for some high-tech U.S. exports to Iraq have been held up for extended periods because of DOD concerns, putatively about the risk of diversion to the Soviet bloc. From the Iraqi perspective, the long delays appear to be capricious. We agree with that assessment.

Licensing procedures are under interagency review at present, and we may be able to give the Iraqis and other interested trading partners more complete guidance soon. In the meantime, we can point to progress on a few specific cases: After extensive discussions with State and DOD, Commerce has issued long-pending licenses for two high-priority scientific projects, including one at the Iraqi Space and Astronomical Research Center.

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TALKING POINTS FOR THE VICE PRESIDENT'S CALL TO JOHN BOHN
(EXIM CREDIT INSURANCE FOR IRAQ)

EXIM CREDITS FOR IRAQ

-- Iraqi Ambassador Hamdoun is calling on me soon, and I expect him to raise the issue of short-term Exim credit insurance for Iraq. I would like to be as responsive as possible.

-- I understand that the Iraqis have resolved some outstanding arrearages to Exim, and that the Exim Board will decide soon whether to resume short-term credit insurance for Iraq. I urge you and your colleagues on the Board to give that favorable consideration.

-- As you know, there are major U.S. policy considerations at work in this issue. Iraq has apparently contained the latest Iranian offensive, and we are taking advantage of that to try to put some life into peace efforts. Exim's support for continued trade with Iraq would be a powerful, timely signal -- both to Iraq and to the Gulf Arab states -- of U.S. interest in stability in the Gulf.

-- Although in the near term Iraq will continue to face financial stress because of the war, Iraq's prospects for the medium- to long-term are good, considering the country's vast oil reserves. Now is the time to begin building a solid trade relationship with Iraq for the future.

CONFIDENTIAL

April 17, 1987

MEMORANDUM TO THE BOARD OF DIRECTORS

From: [REDACTED] JT

Through: [REDACTED], Vice President
Country Risk Analysis Division .f

Subject: Interagency Review of Iraq

An interagency review for Iraq has been scheduled for Friday, April 24, 1987 at 11:00 a.m. in the Board Room. A paper, prepared by Eximbank staff, to serve as the basis of this discussion is attached. It has been distributed to Exim and to outside agencies. Representatives of the agencies listed below will be in attendance. Mr. Rys will provide a short briefing on the war with Iran and all representatives will be ready to offer their views and to answer any relevant questions from Eximbank's Board.

Outside AgenciesRepresentative

State ~

[REDACTED], Country Director,
Iraq[REDACTED], Financial Economist, Office
Dev. Fin.

CIA

[REDACTED], Economist

[REDACTED], Military Affairs

[REDACTED], Political Affairs

Treasury J

[REDACTED], Economist

Agriculture,
CCC

[REDACTED]

Commerce J

[REDACTED]

NSC

[REDACTED]

April 17, 1987

CREDITWORTHINESS ASSESSMENTCountry: Iraq● Eximbank Attitude

Eximbank has been "Off Cover" for all transactions since March 1986 when it ended FCIA insurance coverage under letters of credit from Bank Rafidain and the Central Bank of Iraq because Bank Rafidain became delinquent. At the highest point these arrears amounted to just over \$5 million. Some claims were paid. Commencing in late 1986, the Iraqi Government made payments on the delinquencies and brought the payments current by February 18, 1987. Rafidain's letters of credit became overdue again on March 17, 1987, but subsequent payments of \$1.9 million brought the account current on April 13, 1987. Remaining exposure, all short term, amounts to \$4.6 million with maturities ranging from April 21, 1987 to December 12, 1987.

● Foreign Exchange Reserves

Net foreign assets of the banking system were \$37 billion at the end of 1980. No official figures on reserves have been available since. However, with current account deficits on civilian goods in 1981 and 1982 totalling \$27 billion and smaller deficits in succeeding years, foreign exchange reserves have been exhausted.

● Iraqis have said they recognize no quota restraints on their oil production and will produce whatever amount serves their national interests. Iraq was excluded from the OPEC production quotas established in October 1986 and refused to accept any quota in the December 1986 OPEC negotiations.

● Although both scenarios are subject to much uncertainty because of the war with Iran and the volatility of oil prices, neither outcome indicates the basis for covering all principal payments falling due. Under both scenarios, arrears will accumulate through 1989 even as modest repayment of principal becomes possible. In Scenario II, arrears continue to grow after 1989 and overall debt remains high. Thus in either case willingly or not, Iraq's creditors will reschedule debt payments for the foreseeable future.

● Bilateral Reschedulings and External Debt

Commencing in 1983, Iraq has been unable to make the progress payments due foreign contractors on cash contracts and asked that payments be restructured over 3 years with 1-year of grace. COFACE and the ECGD guaranteed the reschedulings with banks for French and U.K. companies. In addition, there were reschedulings with the other major European countries, as well as with Japan, India, and Yugoslavia. Similar reschedulings have taken place every year since 1983.

The first payment on the 1983 rescheduled debt came due April 1, 1985. Payments were made to the French, Germans, and British, but not to the Japanese, Indians or Yugoslavs. They were asked, and subsequently agreed, to defer these rescheduled payments. Additional deferrals were sought for rescheduled payments due later in 1985, in 1986, and to date in 1987.

While no official figures are available on Iraq's external debt, various estimates put it at end 1986 at approximately \$50 billion, of which \$25-\$30 billion is owed to the Gulf oil states and may not have to be repaid. The remaining \$20-\$25 billion was distributed as follows: \$10.3 billion reported by Berne Union members, \$6 billion outstanding to firms and others in OECD countries; and \$5 billion owed to non-OECD.

Existing payment schedules on the debt are difficult to determine. Much of the payments due since 1983 have been rescheduled and Iraqi authorities have been requesting delayed payment terms on new credits obtained since 1985. Berne Union members report payments due their export credit agencies on existing commitments at \$2.4 billion in 1986 and \$1.6 billion in 1987. Payment delays reported by Berne Union members were \$730 million as of December 31, 1986, up from \$70 million as of December 30, 1985. The Middle East Economic Digest estimated that payments due Western obligors would average \$3 billion annually until 1990.

A good indication of Iraq debt payment problems is its inability to repay its 1983 Euroloan of \$500 million. In late September 1986, Radidain Bank asked that the September installment of \$71.4 million and three additional installments be deferred for 2 years. Rafidain Bank has also sought to defer payments due on letters of credit with major European and U.S. banks since March 1986. Some of these have been rescheduled on a bilateral basis.

In the United States, the Department of Agriculture, through its CCC program, has had favorable repayment experience. However, few U.S. banks will now participate in the program. In 1986, almost the entire program was taken by an Italian bank domiciled in the United States, as U.S. banks viewed the risk as too great even with the 98% CCC guarantee.

Berne Union Attitudes

Attitudes and commitments of Berne Union members on February 21, 1987 toward Iraq are shown in Table III. Eight of the major 12 members were "Off Cover" for medium- and long-term business and six were "Off Cover" for short-term business. The U.K. has remained open for medium-term cover under a Government Protocol signed in 1984. Most member countries reported delinquencies with Bank Rafidain on short-term letters of credit. A few cited favorable experience with Central Bank short-term letters of credit.

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United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D.C.
20250

AUG 19 1987

- Mr. Michael O'Connor
National Advisory Council on International
Monetary and Financial Policies
Department of the Treasury
Washington, D.C. 20220

Dear Mr. O'Connor:

The Department of Agriculture has reviewed Iraq's current agricultural commodity import needs as well as U.S. market development opportunities in that country. In late August, USDA officials will meet with GOI officials to discuss using the Export Credit Guarantee Program (GSM-102) and the Intermediate Export Credit Guarantee Program (GSM-103) for sales of U.S. agricultural commodities to Iraq in fiscal year 1988.

We plan to offer up to \$510 million in total GSM-102 guarantees and up to \$90 million in total GSM-103 guarantees. The exact allocations for specific commodities will result from consultations with the Iraqi team.

These programs have been effective in opening the Iraqi market to a variety of U.S. agricultural commodities. Further development of this market and the building of an on-going U.S. market share both depend on the continued availability of credit terms. Aside from cotton, commodities outside Chapters 1-24 which are under consideration are hides and skins, solid wood products (lumber, matchsticks and wood pulp) and finished leather. All commodities were programed on three-year terms in the FY 1987 program, and we propose the same terms for this year.

USDA has reviewed Iraq's financial situation and is aware that there is a risk of nonpayment. However, except for arrearages on penalty interest under the blended credit program--which have not been resolved by CCC and the Government of Iraq--Iraq is current under both GSM-102 and GSM-103 programs. Because of the importance of Iraq as a U.S. market for agricultural commodities, we are willing to accept that risk.

In view of the above, USDA proposes the following allocation of GSM-102 and GSM-103 export credit guarantees.

Amount:
GSM-102
GSM-103

\$510 million for FY 1988.
\$90 million for FY 1988.

Purpose:

For credit guarantees covering credit sales of U.S. agricultural commodities secured by foreign bank letters of credit.

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Mr. Michael O'Connor

2

Terms:

GSM-102
GSM-103Up to 3 years
From 4 to 7-years.

Guarantor:

Rafidain Bank and/or other eligible banks.

Export Authorization Period: Through September 30, 1988.

We request the views of the National Advisory Council on International
Monetary and Financial Policies.

Sincerely,



Kerry E. Reynolds
Director
Program Development Division

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NATIONAL ADVISORY COUNCIL

STAFF COMMITTEE

**Minutes
Meeting 87-35
August 25, 1987**

Agencies:

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.C Meeting 87-35
August 23, 1987
Page 3

d) Iraq - GSM-102 (\$510.0 million) and GSM-103
(\$90 million) NAC Dec. 87-130

The *Agriculture* representative noted that the proposed \$600 million program for Iraq in FY 1988 was less than its FY 1987 program of \$700 million and reviewed the commodities outside Chapters 1 to 24 of the CCCN to be covered under the GSM-102 program. These included cotton, lumber, hides and skins, and finished leather.

The *Treasury* representative commented on the riskiness of this market and Iraq's policy of not participating in Paris Club reschedulings. However, she noted Iraq had a good payment record with CCC and that its oil exports were rising. Nevertheless, she said, *Treasury* took the proposed \$600 million as a

limit on agricultural credit sales to Iraq in FY 1988. She also recommended the term for finished leather be kept to one year.

The *State* representative was in agreement with *Treasury* regarding both Iraq's good record on servicing debt to the CCC and on the desirability of restraining terms of financing.

The *Agriculture* representative said Iraq was most unlikely to purchase leather with financing of only one year. He agreed, however, to limit the term for finished leather to 720 days.

In response to questions from the *Commerce* representative, the *Agriculture* representative said the commodities to be covered under the GSM-103 program were protein concentrate and breeding livestock. *Commerce* abstained on this proposal for reasons similar to those cited above on the program for [REDACTED]

Council approval of the FY 1988 GSM-102 and GSM-103 programs for Iraq was obtained (*Commerce* abstaining) on the basis of votes cast by Staff Committee members on behalf of their Principals at, or shortly after, the meeting (NAC Action 87-187, August 23, 1987).



United States Department of State

Washington, D.C. 20520

August 27, 1987

4790D122
Bx [redacted] 1,2

MEMORANDUM

TO: EB -

FROM: EB/

SUBJECT: USDA Continues to Press Troublesome CCC Proposals at NAC

In recent months USDA has presented a number of troublesome CCC, GSM-102/103 export credit proposals to the National Advisory Council (NAC) weekly interagency working group. At issue are (1) USDA's efforts to include higher value-added products which fall outside of CCCN chapters 1-24, such as wood products and leather, into what has traditionally been a program for primary agricultural commodities and (2) the length of terms offered for these and other items. This has generated much debate within the NAC. The inclusion of higher value-added items under the CCC Program crosses many trade jurisdictions, which would normally fall outside of the NAC's purview. Despite this the NAC has made modest progress in restraining some of USDA's proposals.

Each week in September, USDA will be presenting for NAC consideration CCC country program proposals for FY88. In general, NAC agencies are pressing USDA to exercise export credit discipline by not exceeding normal market terms for these products or by extending the minimum terms possible for neutralizing export competition. USDA itself is under significant pressure to move larger levels of CCC. We expect some of the proposals could generate disagreement between NAC agencies and USDA. If faced with NAC intransigence on a particular proposal, USDA has shown a tendency to quickly raise these issues to higher levels.

At the August 25 meeting of the NAC interagency working group, USDA presented export credit proposals for two particularly sensitive countries--Iraq and Korea. According to USDA, Iraq insists on extended credit terms (three-years or longer) for all purchases under the CCC program. While understanding the peculiar limitations in dealing with Iraq and acknowledging that Iraq has remained current on CCC obligations so far, we and other NAC representatives did express dissatisfaction with USDA's proposal for extending three-year terms for finished leather (as apparently programmed under the

-2-

FY87 program). USDA did agree to modify the leather proposal to 720 days. Although not as short as normal market terms for leather--and thus not ideal, this term does fall within the two-year OECD Arrangement threshold for non-agricultural export credits and was acceptable to NAC agencies.

In addition to their FY88 request for Korea which includes cotton, wood veneer, furskins and finished leather, USDA proposed to extend an additional \$50 million cotton line to that country for FY87 at two-year term. The NAC agencies criticized the proposed terms for these products as being excessive. USDA asserted that shorter terms would not be effective to counter competition and declared that the GOK would not accept shorter terms.

The NAC process, however, appears to have met with some, albeit limited, success. The message of NAC dissatisfaction with their recent proposals has obviously registered with USDA officials. To support their proposals, USDA brought a full entourage to the NAC meeting, including their Ag Counselor to Seoul and their experts on wood veneer and Iraq programs. The NAC has been partially successful in ratcheting down some of USDA's requests. However, the key issue, and one that USDA may now realize, is that their CCC proposals for higher value-added or non-traditional commodities ought to be accompanied with adequate justification for the terms. With the USG in the vanguard for the protection of export credit discipline, the NAC does not propose to permit USDA to blithely blunder in the opposite direction.

There is nothing specific you or Doug need to do at this point but you might get a call from Agriculture trying to escalate this issue.

DEPARTMENT OF THE TREASURY
WASHINGTONNational Advisory Council
Document 87-192
October 22, 1987

October 19, 1987

MEMORANDUM FOR MICHAEL O'CONNOR
Secretary, National Advisory Council

From: [REDACTED]

Subject: Proposed Increase of Iraq CCC Funds by \$360
MillionIssue:

The Agriculture Department has proposed a \$360 million increase in the approved FY 1988 CCC credit guarantees for Iraq. This proposal would bring the total for Iraq to \$960 million for this fiscal year.

Treasury Position:

In the NAC Treasury will not approve this proposed increase in the CCC's exposure Iraq because this would constitute an unacceptable financial risk.

Summary Points:

- The National Advisory Council (NAC) has already approved \$600 million for Iraq under the CCC for FY 1988; a new total of \$960 million (the largest allocation for a single country) would put 18% of the CCC's total allocation at risk. Last year Agriculture's CCC program for Iraq was \$700 million.
- Iraq has recorded current account deficits for the last five years and will likely continue to face large financing gaps (requiring further reschedulings) for at least the next two or three years.
- There would be little likelihood of repayment through a Paris Club rescheduling if Iraq were to default. (Iraq reschedules only on a bilateral basis, refuses to publish current economic data, and does not have an IMF program.)
- Iraq's external debt is estimated at \$50 billion, of which \$15 billion is owed to OECD countries; despite increased oil revenues, the war-racked country remains a risky borrower.
- Eximbank is "off-cover" for medium and long-term transactions in Iraq and only "on cover" for 360-day terms, further evidence that the proposed increase is not in line with the market risks in Iraq.

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NATIONAL ADVISORY COUNCIL

STAFF COMMITTEE

Minutes
Meeting 87-51
December 15, 1987

Agreed.

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NAC Meeting 87-31
December 15, 1987
Page 1

2. AGRICULTURAL EXPORT CREDIT SALE

Iraq -- CCC Sale of Dairy Products \$51.5 million (NAC Doc. 87-210)

The *Agriculture* representative said this year's proposed sale of CCC-owned commodities to Iraq was essentially a continuation of last year's in terms of commodities, amounts, and the 3-year repayment term. He said this credit sale would not increase CCC exposure in Iraq beyond the level approved by the NAC in Action 87-258 of Oct. 16, 1987. Trade policy clearance, he said, had been obtained through the usual interagency process.

In response to questions from the *Federal Reserve* representative about the valuation of the sale, the *Agriculture* representative said the estimated amount was based on the current world market prices for the eligible commodities.

The *Treasury* representative supported the sale, but said *Treasury* support should not be construed as approval of the increase in CCC's FY 1988 program for Iraq, which *Treasury* had opposed (NAC Action 87-258).

Council approval of the CCC sale to Iraq was obtained on the basis of votes cast by Staff Committee members on behalf of their Principals at, or shortly after, the meeting (NAC Action 87-302, December 15, 1987).

2. INTERNATIONAL MONETARY FUND

Ivory Coast - Request for Stand-By Arrangement and CFP Drawing (EBS/87/249 and 250)

1988

BRIEFING MEMORANDUM *S/S [Signature] 3/23*

8906119
02 March 23, 1969

To: The Secretary

From: NEA - Paul J. Hare, Acting ^{PM}

Subject: Meeting with Iraqi Under Secretary Nizar Hamud
March 24, 1989 at 2:00 PM in your office Conf. rm

To express our interest in broadening U.S.-Iraq ties, stressing the importance we place on chemical weapons and on settling claims for Iraq's attack on the USS Stark.

- o Hamdun is a unique channel to Iraq's President Saddam Hussein, and points you make will be heard at the highest levels in Iraq. Hamdun will stress Iraq's importance, and call for closer relations unaffected by what he considers "outside irritations": chemical weapons, etc. Iraq fears ~~we will improve relations with Iran at Iraq's expense.~~
- o Bilateral relations are thorny but important. Iraq is the strongest state in a region vital to our interests, with a powerful army and oil reserves second only to the Saudis.

- We reestablished relations in 1984 after a break in 1967. We cooperated closely in trying to end the Gulf War through UN Security Council Resolution 598.
- During the war, Iraq drew closer to our friends among the Arab moderates, getting financial support from Saudi Arabia and Kuwait. Iraq has now concluded a formal economic alliance with Egypt, Jordan, and North Yemen in the Arab Cooperation Council.
- Since we took Iraq off the terrorism list in 1983, Iraq has broken with Abu Nidal and expelled Colonel Hawari, although it still allows entry to Abu Abbas (who directed the Achille Lauro hijacking) and member of Col. Hawari's group.
- But Iraq retains its heavy-handed approach to foreign affairs -- it has revived a border dispute with Kuwait and is meddling in Lebanon -- and is working hard at chemical and biological weapons and new missiles.

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DECL: OADR

[illegible]

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- o May 17 will mark the second anniversary of the Iraqi attack on the USS Stark. At the time, Iraq's President accepted responsibility and promised compensation.
 - Mike Armacost presented the first set of claims, for wrongful death of 17 sailors, on April 4, 1988 (totalling about \$34 million). The Iraqi MFA's Legal Adviser went over the claims in detail here in July, 1988, but has made no substantive response since then.
 - Judge Sofaer is in Baghdad, at Iraq's invitation, to discuss the claims further. He met with Hamdun before leaving and said we will soon present personal injury claims (about \$1.5 million) and USG claims of \$23 million (mostly damage to the Stark), but emphasized we have no room for negotiation on the death claims.
 - Sofaer called from Baghdad to report that an initial session March 22 went very well, and he hopes he can resolve the issue during this trip.
 - With this information in hand, Bob Kinnitt saw Hamdun March 22, and stressed it is important to settle these sensitive claims to remove a stumbling block from the relationship.
- o Following CW use in the war with Iran, Iraq used CW as part of a campaign to suppress a Kurdish rebellion last August.
 - We condemned unlawful CW use, and Congress began considering sanctions legislation.
 - Responding to our diplomatic approach and the threat of sanctions, Iraq stated adherence to international law on CW, participated constructively in the Paris C Conference, and began to participate in the Conference on Disarmament talks in Geneva.
 - Sanctions legislation fell by the wayside last term in the rush to adjourn, despite overwhelming support. Bills introduced this session would apply tough trade sanctions for future unlawful CW use and punish companies contributing to certain CW programs, Iraq's among them.
 - Iraq has asked us to push Congress to delete all references to Iraq in the bills. We have explained that it is unrealistic to expect Congress to do so.

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- o The ceasefire begun with Iran last August 20 is still holding, but UN-sponsored peace talks have produced few results. Working-level talks continue in New York, and there will probably be a ministerial meeting in mid-April.
 - Iraq wants to claim full sovereignty over the Shatt al-Arab waterway; Iran refuses to allow reopening the Shatt until Iraq gives up its claims, and is holding 70,000 Iraqi POWs until Iraq withdraws to its borders.
- o Commercial relations are good, but further growth is constrained by Iran's debt crunch. Iraq is now our number two trading partner in the Arab world, but a commercial agreement we signed in 1987 remains unimplemented.
 - Iraq imports over \$1 billion per year in U.S. agricultural products, financed with USDA CCC credit insurance.
 - But industrial trade lags. Iraq would like Exim to grant medium-term coverage in addition to its small short-term facility.
 - Iraq would also like freer export licensing procedure for high tech. Applications are often held up in Commerce or DoD, usually on grounds that dual-use technology could add to Iraq's military capabilities.
 - The powerful Minister of Industry (Saddam's son-in-law) wanted to buy a closed USX steel plant in Baytown, TX. USX froze the deal when Congress took up union objections.
 - As part of its approach to the U.S., Iraq has in the last year given favorable deals to U.S. oil companies; oil exports to the U.S. have soared to around 500,000 barrels per day.

III.

PARTICIPANTS

U.S.
The Secretary
Policy Planning Staff
Director Dennis Ross
NEA DAS A. Peter Burrell
S/P Staffer Aaron Miller
NEA Notetaker

IRAQ
Under Secretary Nizar Hamdun
Ambassador Abdul-Amir Al-Anbari
Khalid Mohammad, First Secretary
(Notetaker)

IV.

PRESS COVERAGE: Photo Op

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- 4 -

Drafted:

3/21/89

Cleared:

We are directed by the command to be prepared to receive a U.S. delegation in the near future. We are also directed to be prepared to receive a U.S. delegation in the near future. We are also directed to be prepared to receive a U.S. delegation in the near future.

We are also directed to be prepared to receive a U.S. delegation in the near future. We are also directed to be prepared to receive a U.S. delegation in the near future. We are also directed to be prepared to receive a U.S. delegation in the near future.

Attachments:

- Tab 1: Talking Points
- Tab 2: Biographical Information
- Tab 3: Economic Information

Each of these would be a separate document. It is recommended that the CCC's large expense be a separate document.

While it is difficult to see the CCC's role in the current situation, it is recommended that the CCC's role be a separate document.

Recommendation: That you call the CCC and not approve any increase in the CCC's role. Attached talking points.

Since Iraq's economic situation has not improved in the last time an intervention was suggested, it is recommended that the CCC's role be a separate document.

Iraq has recorded current annual deficits of \$1.5 billion and will likely continue to record deficits of \$1.5 billion or more in the next three years.

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There would be little likelihood of repayment through a Paris Club rescheduling if Iraq were to default. Iraq reschedules only on a bilateral basis, refuses to publish current economic data, and does not have a TAT program.

Iraq's internal debt is estimated at \$30 billion, of which

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V. Terrorism

- ① -- We are disturbed by the continued presence in Iraq of Abu Abbas, who masterminded the murder of a U.S. citizen in cold blood. We also understand Colonel Hawari -- head of Fatah's Special Operations section -- still travels to Baghdad.
- ② -- We ask again that you deny Abu Abbas and Colonel Hawari access to your country. The fact that Abu Abbas is a member of the PLO Executive Committee damages the Palestinian cause.

VI. Trade (If raised)

- We are committed to expansion of trade and U.S. exports around the world.
- We believe reconstruction and development projects in Iraq will present significant opportunities for U.S. exporters.

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DEPARTMENT OF THE TREASURY
WASHINGTON

March 24, 1988

MEMORANDUM FOR

From:

Through:

Subject: Your March 24 Meeting with _____ and
Concerning Iraq's CCC Program

I talked with ^{Agriculture} ~~official~~ this morning to discover more about this afternoon's meeting. He explained that they want to meet with you to discuss informally the "current state of play" and the outlook for the next six months in the Iraqi CCC program and to alert you that they plan to ask for a second increase in Iraq's CCC level.

Following my conversation with ^{Agriculture} ~~official~~ I spoke with ^{Agriculture} ~~official~~ for his reaction to a second increase in Iraq's program. He commented that:

- o such an increase would appear imprudent as it would increase the CCC's large exposure in a risky, war-racked economy;
- o while it is difficult to say "definitely not" as they are current to CCC, they are in arrears to everyone else, and he counsels caution.

Recommendation: That you tell ^{Agriculture} ~~official~~ that Treasury will not approve any increase and counsel caution, drawing on the attached talking points.

- o Since Iraq's economic situation has not improved from the last time an increase was proposed in the MAC, Treasury would again vote against an increase on the grounds of country risk.
- o Iraq has recorded current account deficits for the last five years and will likely continue to face large financing gaps (requiring further reschedulings) for at least the next two or three years.
- o There would be little likelihood of repayment through a Paris Club rescheduling if Iraq were to default. (Iraq reschedules only on a bilateral basis, refuses to publish current economic data, and does not have an IMF program.)
- o Iraq's external debt is estimated at \$50 billion, of which

\$15 billion is owed to OECD countries; despite increased oil revenues, the war-racked country remains a risky borrower.

- o Eximbank is "off-cover" for medium and long-term transactions in Iraq and only "on cover" for 360-day terms, further evidence that the proposed increase is not in line with the market risks in Iraq.

Background

As the table below illustrates, usage of the FY 1988 Iraqi program has been high, and *Agri. officials* are likely to argue for an increase in the program to promote exports over the remaining six months of this fiscal year. Recall that they initially received MAC approval for \$510 million GSM 102 and \$90 million GSM 103 for FY 1988, then returned to request approval for an additional \$360 million GSM 102. Treasury voted against this increase on the grounds of financial risk. Agriculture subsequently announced an increase of \$315 million for the 102 program, for a total of \$825 million in CCC 102 and \$915 million overall.

As of March 21, the FY 1988 Iraq CCC usage was as follows (in millions):

<u>Guarantees Approved</u>	<u>Guarantees Authorized</u>	<u>Sales Made But Not Yet Registered*</u>	<u>Total Usage</u>
GSM 102			
\$825	\$400	\$200	\$600
GSM 103			
\$90	\$16	\$71.5	\$87.5

* Exporters have made the sales but are waiting for shipment before they register with the CCC.

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STAFF COMMITTEE

Minutes
Meeting 88-14
April 5, 1988

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NAC Meeting 88-14
April 5, 1988
Page 1

2. AGRICULTURAL EXPORT CREDIT SALES

(a) Iraq - GSM-102 \$200 million (feedstuffs) (NAC Doc. 88-27)

The *Agriculture* representative said the proposed \$200 million of additional GSM-102 guarantee coverage for Iraq (making the cumulative total in FY 1988 \$1,025 million) was in response to Iraq's request for an amount greater than that. He said Iraq was using its previously approved coverage at a rapid rate across all product lines.

Concerning Iraq's debt servicing difficulties, he said Iraq was current with the CCC and referred to more information on its payment record contained in his letter to the NAC (NAC Doc. 88-27). He also cited reports that Iraq had resumed servicing its French debt. Nevertheless, he said intended to announce the additional guarantee coverage in tranches, as a cautionary measure.

The *Treasury* representative said *Treasury* opposed the proposed increase in CCC exposure in Iraq on lack of creditworthiness grounds, as it had opposed the previous increase requested in October 1987. He said assessment of Iraq's economic situation had not changed since then. The representative supported Treasury's position.

The *USTR* representative asked about Eximbank's attitude toward Iraq, to which the *Eximbank* representative responded that *Eximbank* was open for short-term insurance coverage in Iraq.

(After the meeting, the *State Dept.*, while noting *Treasury* serious concern about Iraq's ability to repay, supported the request, as did *Commerce*, *AED* and *USTR*.)

Council approval of the additional GSM-102 guarantees for Iraq was obtained on the basis of votes cast by Staff Committee members on behalf of their Principals (*Treasury* and the *Federal Reserve* voting against) at, or shortly after, the meeting (NAC Action 88-64, April 5, 1988).

Reviews

July 18, 1983

MEMORANDUM TO THE BOARD OF DIRECTORS

From:

[REDACTED]
 Vice President for
 Country Risk Analysis

Subject: Country Review: Republic of Iraq on Monday, July 25
 at 10:00 a.m.

Attached is the Eximbank staff paper prepared by Clement Miller of the Country Risk Analysis Division, which will serve as the basis for the above-referenced discussion. It has been distributed with the Bank and to outside agencies. Representatives of the agencies listed below will be at the review to offer their views, to answer questions from Eximbank's Board and, where their analyses or conclusions differ from those in this paper, to identify the assumptions or data causing the differences.

Outside AgenciesRepresentative

CIA

Representatives of the Office
 of Global Issues and the Office
 of Near East-South Asia
 Analysis

Commerce Department

[REDACTED]

Federal Reserve

[REDACTED]

State Department

[REDACTED]

Treasury Department

[REDACTED]

USTR

[REDACTED]

Attachment

cc: See distribution list.

Country Review: Republic of Iraq**Introduction**

After years of war against the Kurds and Iran, Iraqi Arabs nurture a mixed sense of insecurity and destiny. They want Iraq to remain a powerful military force, yet desire a resumption of economic development. Saddam Hussein does not wish to disappoint Iraqi Arabs. He intends to achieve Iraqi Arabs' multiple political, military, and economic objectives through accelerated application of modern technologies, greater exploitation of oil reserves, and skillful manipulation of its relationships with foreign powers and their official creditors. This manipulation will be necessary because, for the foreseeable future, Iraq will not have enough money to repay all of its foreign creditors.

Iraqi Arab National Consciousness

The national consciousness of Iraqi Arabs was cast in their struggles against colonialism and in their wars against the Kurds. It reached its fullest expression in the ruthless nationalism espoused by Saddam Hussein. By the 1970s, Iraqi Arab national consciousness was so well formed that even Khomeini could not split Iraqi Shi'a from Iraqi Sunni.

For centuries, Iraqi Arabs languished under the control of the Ottoman Turks. After the First World War, the Great Powers combined Arab Mesopotamia with Kurdish territories to form what is now Iraq. Britain installed a monarchy and a landed gentry which served British petroleum interests. The British-backed regime survived until the late 1950s, surviving unrest and even a 1941 coup attempt by Arab officers.

A second coup attempt, in 1958, succeeded in toppling the monarchy. With this coup, and two more in the 1960s, Iraqi Arab military regimes eliminated the gentry, consolidated their hold on both the Arab and Kurdish populations through ruthless repression, and restructured relations with Britain, the superpowers, and the oil companies. Iraq also sought a leading role in Pan-Arab affairs.

In the 1960s, Iraqi Arabs adhered to Ba'ath, an ideology endorsing resistance to imperialism and Israel, and espousing pan-Arab unity, secularism, and state socialism. Ba'athists influenced the 1963 coup, and led the 1968 revolution. In the 1970s, the Ba'ath party established a totalitarian state, wrought with informers, secret police, and clandestine tribunals. Saddam Hussein twisted the Ba'ath doctrine to fit the emerging national consciousness. While the new ideology is rooted in a Saddam (face-on-every-street-corner) personality cult, its emphasis is on the Iraqi Arab nation. Its strength is drawn not from foreign notions such as socialism, secularism, and Arab unity, but from

very chauvinist Iraqi Arab sentiments regarding foreign imperialism, the Kurdish nationalists, and Persian Iran. Important expressions of Iraqi Arab sentiment are the national symbols now employed by the regime: Babylon and the al-Abbasid caliphate. These symbols reveal the nationalist drift from ideological Ba'athism: Babylon was not Arab, and al-Abbasid not secular. Iraq's two Mesopotamian antecedents once dominated the Fertile Crescent, and were both menaced by powerful Eastern empires. Iraqi Arabs under Saddam view themselves as inheritors of the legacy of Babylon and al-Abbasid, as Iranians under the Shah viewed themselves as inheritors of the legacy of Persia.

Iraq's Wars and Shifting Alliances

Iraqi Arab national consciousness, with its mixed sense of insecurity and destiny, has inspired Iraqi Arab regimes to pursue nearly continuous hostilities against the Kurds, re-shuffle constantly their alliances with foreign powers, and launch their costly war against Iran.

Iraqi Arabs view Kurds as their greatest threat. The Kurds, who form between one-quarter and one-third of the population, are struggling to form a state embracing territories carved mainly out of Iraq and Turkey. Under the Baghdad Pact of the 1950s, the Iraqi monarchy cooperated with Turkey and Iran in subduing Kurdish guerrillas. In the 1960s, Iraqi Arab regimes turned to the Soviets to purchase arms needed to wage new campaigns against the Kurds. However, the Kurds soon came to obtain their own Soviet arms, and Iraqi forces could not dislodge the Kurdish forces from their mountain redoubts.

Hoping to constrict the flow of weapons to the Kurds and broaden its own opportunities for military purchases, Baghdad in 1972 signed a friendship pact with the Soviet Union. The Kurds then turned to the Shah of Iran, who disliked the Iraqi regime. The Shah allowed Iraqi Kurdish guerrilla groups to operate freely from Iranian territory. Kurdish attacks persisted until 1975, when Iraq and Iran negotiated the Algiers agreement. Iraq consented to Iranian demands for border adjustments in the disputed Shatt al-Arab waterway in return for an Iranian promise to stop harboring Iraqi Kurds. Nevertheless, in the wake of the 1979 Iranian revolution, Tehran's military control of Iranian Kurdistan lapsed, freeing the Kurds to mount new cross-border attacks against Iraqi Arab military garrisons.

Incensed with violations of the Algiers agreement, and sensing an opportunity in a period of apparent Iranian weakness, Iraq in September 1980 launched a full-scale attack across the Shatt al-Arab. As Iraqi forces pushed deeper into Iranian territory,

Baghdad expected Tehran to sue for peace. Tehran's immediate response, however, was to employ its air force to destroy Iraq's petroleum and industrial complex at Fao.

Throughout 1981, Iran's mullahs recruited cannon fodder for a supplementary infantry, the Revolutionary Guards. By early 1982, the war's momentum shifted in Iran's favor. Iranian forces waged a war of attrition against the invading forces. The Guards also forged links with Iraqi Kurdish groups, who helped open a second front against the Iraqis. By 1984, Iraq was forced to withdraw most of its forces from Iran and to re-deploy them along the border, to stop Iranian attacks.

Iraq at this time took steps to secure a wider group of allies. Even while stepping up arms purchases from the Soviets, Baghdad began buying military equipment from Brazil, China, Egypt, France, and other countries. Baghdad also re-established relations with a more amicable United States.

In spite of superior Iraqi firepower, Iranian forces launched a successful series of offensives into Iraqi territory in 1986 and 1987. Iranian forces broke through Iraqi defenses to capture Kurdish territory northeast of Baghdad, the Fao peninsula, and the marshes and islands abutting Basra, Iraq's second largest city. Only massive Iraqi use of chemical warfare prevented even further Iranian advances. The tides of war soon turned again, however. In early 1988, Iraqi forces, using chemical weapons offensively for the first time, recaptured both Fao and the marshes east of Basra and helped a rebel Iranian group capture an abandoned Iranian border town. Nevertheless, despite Iraqi nerve gas attacks, Iranian forces remain in control of territories northeast of Baghdad.

It is impossible to forecast developments in Iraq's wars against Iran and the Kurds, yet some observations can be made. First, Baghdad is not ready to end the Gulf War on any terms acceptable to the Iranians and might carry the war back into Iran. Even if an armistice is arranged, Iraq cannot ignore the long-term Iranian threat and is likely to invest heavily in rearmament. Iraq will also need to strengthen its offensive posture against the Kurds. Finally, Baghdad will persist in courting foreign powers willing to provide arms and other support. However, Iraq will not enter into any stable political or military alliances, or agree to any quid pro quo in return for foreign support.

Quest for Technology in Warfare and Development

In their battles against the Kurds, Iraqi Arabs learned the value of modern military technologies: tanks, APCs, helicopters, field artillery, and automatic weapons. Through the 1970s, the Iraqis were spending upwards of \$1 billion per year on weapons. By

1980, the Iraqis were ready to consider taking on the U.S.-armed Iranians. Aware of the political disorder within the Iranian army, Baghdad could easily discount Iran's margin of technological sophistication.

However, over 1981-1984, the Iraqi high command was shaken by the speed with which Iranian fighting discipline and morale were restored. The Iraqis realized that Iran could, over the long run, muster three times as many troops as Iraq. They knew that survival, as well as eventual victory, depended on the mastery of technology. Therefore, Iraq was very quick to deploy advanced and often barbaric military technologies. Purchases of arms and other military equipment were stepped up, reaching \$5 billion per year by 1987.

In addition to traditional warfare on the battlefield, Iraq has used mobile infantry units, electronic surveillance, mine fields, controlled flooding, mustard gas, and nerve gas. Against Iranian air raids, Iraq has used SAM missiles and aircraft interception. In its raids on Iran-bound shipping, Iraq has used high-altitude bombing, dive bombing, heat-seeking missiles, and long-range refueling. In missile attacks on Kharg Island and Tehran, Iraq has even used second-stage boosters.

Iraq's quest for advanced technologies is not limited to military equipment. A taste in high technology was acquired during the 1970s oil revenue and investment boom, but is now reinforced by the brilliant display of technology in response to the war. Throughout Baghdad's civilian ministries, and in the fledgling private sector, Iraqis now want to purchase only goods embodying the very best in modern technologies.

By the late 1980s, Iraqi Arabs had hoped to establish an advanced, diversified economy, which would produce and export a wide variety of manufactured and agricultural goods. However, the war forced an interruption of Iraq's ambitious plans. Now, after nine years of war, Iraqi Arabs are anxious to restart their stalled development program.

Saddam's Western-trained ministers are fingering blueprints for expanded oil production capacity, as well as for oil refineries, power plants, hydropower/irrigation projects, petrochemical plants, plastics plants, aluminum and steel plants, and other manufacturing facilities. Throughout Iraq, army commanders, enterprise directors, government ministers, and private farmers all desire to purchase high-technology products. They have done their research, and identified and even contacted specific foreign suppliers of desired products.

Many of these suppliers are in the United States. The Iraqis are impressed by American technology. However, in the wake of the Stark and Iran Air incidents, they hold no illusions about

inherent American superiority. The Iraqis do understand, quite painfully, that importing high-technology goods, from the United States or elsewhere, will ultimately require foreign exchange. In Iraq, foreign exchange remains a centrally-administered and highly-rationed commodity.

Financial Problems: Oil Revenue Inadequacy and Unreliability

Iraqi Arabs are proud that their country (including Kurdish provinces) contains the world's second largest oil reserves. However, as with all assets, the size of Iraq's reserves is less relevant than their overall rate of return, annual crude oil revenues. Before 1980, Iraq's crude oil earnings were broadly sufficient to permit both military and civilian imports, as well as growth in overseas bank deposits. Since 1980, however, Iraq's oil revenues have been inadequate to finance both arms purchases and economic development. In addition, Iraqi oil revenues have proven quite unreliable. Baghdad has often miscalculated the amount of oil revenues available to meet Iraq's financing needs.

In 1980, when it launched the Gulf War, Baghdad made two serious miscalculations. First, Baghdad assumed the survivability of its Gulf oil terminal. When Iraq lost Fao, export capacity slipped from 3.3 mb/d to 1.7 mb/d. Secondly, Iraq misjudged Syria's reaction to Iraq's offensive. Expressing solidarity with Iran, President Assad closed Iraq's pipeline through Syria, leaving as Iraq's sole oil outlet the 700,000 b/d Turkish pipeline. Iraq's oil revenues suddenly fell from \$25 billion per year to \$10 billion, sufficient to cover only half the \$20 billion in payments falling due on civilian and military imports.

The doubling of oil prices in 1981, which initially softened the blow to Iraq's finances, led Baghdad to a third serious miscalculation: that oil prices would continue to rise. Since even respectable oil analysts were predicting \$50 per barrel oil within a few years, Baghdad could hope that rising oil prices would partially mitigate the revenue losses from the reduction in export volumes, and enable Iraq to finance its shortfalls totally from reserve drawdowns.

However, oil prices crested at \$35 per barrel in 1982 and had stabilized at \$29-30 per barrel by mid-1983. The collapse in oil revenues, to \$9 billion in 1982, depleted Iraq's overseas bank holdings by year-end, and obliged Baghdad to ask for two-year reschedulings of payment obligations to foreign contractors and suppliers. In 1983, Iraq slashed civilian imports from \$17 billion to \$9 billion, even as the turn in the war forced an increase in military purchases.

Baghdad figured that, within two years, sufficient new pipeline capacity would be built to permit not only military and civilian

purchases, but adequate debt servicing. Since Iraq planned oil export capacity of 1.5 mb/d by 1985, and 2.2 mb/d by 1987, Baghdad came to expect a doubling of 1983 oil revenues by 1985, and a tripling by 1987.

However, Baghdad had made yet a fourth miscalculation: that oil prices would remain above \$29-30 per barrel. Iraq's expectations were dashed by the 1986 oil price collapse, which more than offset the revenue impact of an expanded Turkish pipeline and an entirely new pipeline (IPSA-1) into Saudi Arabia. Instead of growing to \$19 billion in 1986 as expected, Iraq's oil revenues fell to \$7 billion, forcing Iraq to squeeze civilian imports still further, and ask creditors for a second rescheduling of previously rescheduled debts, and a first-time rescheduling of recent export credits.

In 1987, Iraq benefitted from a mild recovery in oil prices and from the opening of its second pipeline through Turkey. Oil revenues leapt to \$10 billion from \$7 billion the previous year. While showing spectacular year-over-year growth, 1987's nominal oil revenues were actually no greater than in 1985. Before the oil price collapse, Iraq had been expecting to earn well over \$20 billion in 1987. It took the entire added capacity of the new Turkish pipeline just to offset the 1986 oil price decline. In 1987, Iraq continued to suppress civilian imports and demand additional reschedulings from creditors.

With yet another pipeline under construction (IPSA-2 to Saudi Arabia's Red Sea port of Yanbu), the Iraqis are making new oil revenue calculations. When IPSA-2 comes on-line, by early 1990, Iraq's export capacity will theoretically exceed 3.2 mb/d. Iraqis planners are probably counting on oil revenues to regain pre-war levels of \$20-25 billion by 1990. But herein lies the potential for yet a fifth miscalculation.

Baghdad's efforts to increase export volumes run counter to OPEC efforts to impose production discipline and stabilize oil prices. With the coming on-stream of the second Turkish pipeline in 1987, Iraq effectively graduated from a price-taker to a major price-maker. To move additional oil, Iraq has been forced to undercut competitors, even other OPEC countries. Iraq's escalating production and predatory pricing actions are key factors depressing world oil prices, and are even counterproductive.

Already in 1988, lower-than-expected oil prices have offset much of Iraq's 1987 volume increases. At less than \$12 billion, Baghdad's 1988 oil revenues alone will be insufficient to cover \$16 billion in military purchases, civilian imports, remittances, and freight and insurance costs. Less than \$2 billion will be available to cover estimated debt service payments of \$7 billion.

With weak global oil demand and surplus OPEC capacity, the coming on-stream of an additional 1 mb/d from IPSA-2 will serve to drive down world oil prices still further. It is conceivable that Saudi Arabia, which has the most to lose from a worsening oil glut, might limit IPSA throughput to forestall disastrous price declines.

More likely, however, is a diplomatic solution in which Iraq would be offered an output quota equal to the one now in force in Iran. Baghdad had demanded such parity, but dropped its demand in 1987 when Iraqi oil output came to exceed Iranian output. Parity with Iran would leave Iraq's oil export revenues little changed from current levels, frustrating again Baghdad's projections of petroleum prosperity. Any large increases in civilian imports and development spending would depend on the unrequited generosity of Iraq's foreign creditors.

Treatment of Creditors: Securing Strategic Financial Partners

From the start of the Gulf War, the inadequacy and unreliability of oil revenues has forced Iraq to rely on massive external financial assistance, in the form of grants, loans, and reschedulings. Iraq's hard-currency external debt (not including grants from Saudi Arabia and Kuwait, or debts on clearing accounts with the Soviet Union) is today greater than the external debts of Algeria, Chile, Nigeria, or Yugoslavia. Nevertheless, Iraqi Arabs are far too proud to consider their oil-rich country a debtor nation.

Bilateral reschedulings, imposed by Baghdad on unhappy Western creditors, with two-to-four year repayment terms, have left Iraq's debt service payments "bunched", maintaining a much higher debt service burden than countries which have received multilateral debt "stretch-outs." A Paris Club, or its equivalent, would ease Iraq's financial difficulties. However, the Iraqi Arabs would consider a multilateral rescheduling a severe blow. After all, neither Iran nor its Arab Gulf brothers have suffered such humiliation.

Baghdad does not accept the normal concept of debt or the principles of normal debtor-creditor relations. It considers external financial assistance a two-way street, serving not only Iraq's aims, but the military, political, and economic interests of creditors. Hence, Iraq does not accept the principles of financial disclosure, public multilateral negotiations, and equitable treatment of creditors. Rather, Iraq pursues a ruthless strategy of securing strategic financial partners, employing financial secrecy, private bilateral negotiations, and blatant unequal treatment of creditors.

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Iraq's preference for secrecy has pre-war roots. Baghdad's money managers have long been considered as discreet as the Swiss. Before the war provided a good excuse for not releasing any financial data, Iraq would refuse to release information on the size and whereabouts of foreign assets. Today, Baghdad offers no data on trade, military spending, borrowing, debt stock or payments. Data on oil reserves, production, and export volumes are employed selectively to entice creditor interest in providing additional financial support.

Baghdad's preference for bilateralism and creditor discrimination also has pre-war roots. Baghdad has long conducted the bulk of its foreign trade under Soviet-style bilateral arrangements, cleared either in oil deliveries or hard-currency payments. In extending the philosophy of trading arrangements to relations with creditors, Baghdad regularly uses default to obtain the best possible rescheduling and new money deals from its creditors. Baghdad downgrades the importance of repayment, viewing loans as providing creditors immediate payback in terms of increased access to the Iraqi market. Timely financial repayment is not viewed as the action of a responsible creditor, but rather as leverage to secure even greater financial resources. Oil deliveries are an acceptable and even preferable means of clearing accounts.

Baghdad strongly desires to develop strategic financial partners, whose self-interest in providing credit to Iraq extends beyond the receipt of interest payments. Iraq's strategic financial partners must be willing to sacrifice repayment in return for heightened Iraqi military security, greater exports to the Iraqi market, or increased political goodwill. Iraq's strategic financial partners include:

Saudi Arabia and Kuwait: Saudi Arabia and Kuwait have provided Iraq with at least \$25 billion in financial assistance. The bulk of these funds represent earnings on oil exports from the Saudi-Kuwaiti Divided Zone. Although Iraq originally promised to repay its Gulf brothers in kind, Saudi Arabia and Kuwait no longer expect repayment. To Iraqi Arabs, Gulf financial support to Iraq has already brought Saudi Arabia and Kuwait tangible benefits, in the form of a strong Iraqi Arab defensive posture against an aggressive Persian Iran. Saudi and Kuwaiti support extend into other areas as well, the IPSA pipeline and merchandise transshipment.

Soviet Union: Before the war, Iraq purchased Soviet arms and civilian imports mostly with hard currency. After the depletion of Iraq's foreign exchange reserves, the Soviet Union accommodated Iraq by boosting imports of Iraqi crude. In 1984, the Soviet Union extended a \$2 billion loan to Iraq to cover civilian purchases. As Iraq increased its oil export volumes,

the Soviets accepted greater volumes of Iraqi crude in repayment of arms purchases. In all probability, the Soviets also offer highly concessional terms on its sales of military equipment to Iraq. The Soviets have a long-term interest in cultivating Iraq, because it is more stable than Syria, more powerful than Saudi Arabia and the other Arab Gulf states, and is a powerful counterweight to anti-Soviet Iran. Even though the Iraqi Arabs are suspicious of Soviet intentions, they are thrilled that at least one of the superpowers views Iraq, rather than Iran, as the Gulf power worth cultivating.

Jordan and Turkey: The central banks of Jordan and Turkey provide credits to Iraq to support sales by Jordanian and Turkish firms. Under bilateral arrangements, the central banks accept crude oil in partial repayment of outstanding debts. Unpaid debt now runs, however, into billions of dollars for each central bank, causing major problems for central bank balance sheets and large negative errors and omissions in national balance of payments accounts. Recently, both central banks stopped their credits on account of these arrears. This is likely to be a brief interruption, as both Jordan and Turkey have sizable interests in Iraq. Iraq is a major market for both countries' manufacturers. Furthermore, aid to Iraq provides immediate strategic benefits: Iraq serves as a strategic counterweight to potential Syrian influence over Jordan and helps Turkey exercise control over its own unruly Kurds. As toward Saudi Arabia and Kuwait, Iraq's attitude is that these benefits outweigh lost debt service.

Western Governments: Western governments have also provided extensive financial support to Baghdad, largely in the form of export credits. Export credit agencies took major hits on export guarantees to Iraq over 1983-1984, resulting in a massive build-up in their direct exposure. In 1986, the ECAs faced bilateral reschedulings of the debts they assumed earlier. Iraq interprets these reschedulings as "new credits", and indeed they are nothing more than pure balance of payments assistance. In these reschedulings, the ECAs have deferred payments for 2-4 years, and many offered to accept partial repayment in crude oil.

Largely on account of these reschedulings, ECA exposure to Iraq has risen to \$10.8 billion, greater than total ECA exposure in Colombia, the Philippines, Venezuela, or Yugoslavia. Because of their bad experience in the 1986 reschedulings, the ECAs have taken a cautious attitude toward Iraq. However, for political reasons, Western governments have often insisted that their ECAs offer some support, however limited. Consequently, most ECAs (exceptions are the ECAs of Germany, Italy, the Netherlands, and Sweden) offer highly-circumscribed short-term cover. However, only Australia's EFIC, the United Kingdom's ECGD, and the United States' Commodity Credit Corporation are open for medium-term cover.

* EFIC, ECGD, and CCC remain open in Iraq on account of reported good bilateral payments records. Their favored creditor status cannot be explained as a reward for the political or military support offered by their governments: France has provided much more of both. Nor is it a reward for overwhelming economic support over the years: France, Germany, Japan, and Italy all have greater ECA exposure. These factors have worked against repayment. ECAs who have demonstrated political, military and economic support are considered strategic financial partners who owe Iraq as much as Iraq owes them.

* Rather, EFIC, ECGD, and CCC enjoy favored creditor status because they are all offering large and increasing programs of new medium-term export credits. CCC alone is offering \$1 billion per year. It would be a tactical mistake for Baghdad to miss payments to these creditors. When these export support programs are diminished, and once repayments begin to exceed new credits, Baghdad will find it necessary to seek reschedulings of these debts, in order to secure strategic balance of payments support.

Iraq is currently cultivating Eximbank as a new source of long-term external financial support. Baghdad hopes to appeal to U.S. national security interests in obtaining yet another strategic financial partner. Also, Baghdad is dangling large high-technology projects in front of well-known U.S. firms, but with one caveat: that they can go forward only with Eximbank support.

Conclusion

After years of war against the Kurds and Iran, Iraqi Arabs nurture a mixed sense of insecurity and destiny. They want Iraq to remain a powerful military force, yet desire a resumption of economic development. Saddam Hussein wishes to fulfill the aspirations of Iraqi Arabs. He intends to achieve Iraqi Arabs' multiple political, military, and economic objectives through accelerated application of modern technologies, greater exploitation of oil reserves, and skillful manipulation of its relations with foreign powers, including foreign creditors.

With oil revenues unpredictable, and insufficient to cover Iraq's financing needs, Baghdad wants to secure strategic financial partners who place their military, political, and economic interests in Iraq above their requirements for repayment. Within this context, Iraq repays in full only those creditors who provide credits in excess of payments falling due.

Source: Export-Import Bank #11

PRESENTATION TO BOARD OF DIRECTORS, JULY 25, 1988

We're here today for a country review of Iraq. One year ago, Eximbank offered \$200 million in short-term insurance for Iraq. At that time, we decided to test the water with a small program, to see if Iraq intends to single out Eximbank for timely repayment. Unfortunately, due to the sluggishness with which the Iraqis first used our program, we today have practically no repayment experience, except for one payment problem we can discuss later. Nevertheless, we are here again today to review Iraq. Such a review is, of course, completely justified by recent developments in the region, including the Iranian call for a cease-fire, and Iraq's new incursions into Iran.

In order to provide a framework for analyzing these recent developments, I've put together a list of key questions, which is the first page in front of you. In my presentation, I will provide the context for what are reasonable answers to these questions. I've provided a map also, which will help you to follow my presentation. Also, I've provided a list of common myths we often hear about Iraq, which I will discuss later in my presentation.

Iraq is a country that, over the medium term, will only be able to repay a small portion of its external debts. However, in making a country risk assessment of Iraq, though, it is important not only to look at raw numbers on things such as oil prices and production, but to get a feel for the way the Iraqis think, the way they approach even such basic concepts as foreign debt. To understand the way they think, we must explore the Iraqi Arab national consciousness, their wars against the Kurds and Iran, their quest for high technology, their tendency to make overoptimistic miscalculations regarding oil, and their treatment of foreign creditors.

Iraqi Arab national consciousness was cast in struggles against colonialism, in their wars against the Kurds, and finally in the struggle against Iran. For centuries, Iraqi Arabs languished under the control of the Ottoman Turks. After the first World War, the Great Powers combined Arab Mesopotamia with Kurdish territories to form what is now Iraq. Britain installed a monarchy and a landed gentry which served British petroleum interests until the 1950s.

In 1958, Iraqi Arab military officers overthrew the British-backed regime, eliminated the gentry, consolidated their hold on the Arab and Kurdish populations through ruthless repression, and restructured relations with Britain, the superpowers, and the oil companies. Iraq also sought a leading role in Pan-Arab affairs. In the 1960s, Iraqi Arabs adhered to Ba'ath, an ideology endorsing resistance to imperialism, and espousing pan-Arab unity, secularism, and state socialism. In the 1970s, the Ba'ath party established a totalitarian state in Iraq.

In the late 1970s and early 1980s, Saddam Hussein twisted the Ba'ath doctrine to fit the emerging national consciousness. The new ideology is rooted in a personality cult -- with Saddam's face plastered on every street corner. However, its emphasis is on the Iraqi Arab nation. Its strength is drawn not from foreign notions such as socialism, secularism, and Arab unity, but from chauvinist Iraqi Arab sentiments regarding foreign imperialism, the Kurdish nationalists, and Persian Iran.

Saddam uses several national symbols to capture Iraqi Arab sentiment: Babylon and the al-Abbasid caliphate. These symbols reveal the nationalist drift from ideological Ba'athism: Babylon was not Arab, and al-Abbasid not secular. Both empires once dominated the Fertile Crescent, and were both menaced by powerful Eastern empires. Iraqi Arabs view themselves as inheritors of the legacy of Babylon and al-Abbasid, as Iranians under the Shah viewed themselves as inheritors of the legacy of Persia.

Iraqi Arab national consciousness, with its mixed sense of insecurity and destiny, has inspired Iraqi Arab regimes to pursue nearly continuous hostilities against the Kurds, re-shuffle constantly their alliances with foreign powers, and launch their costly war against Iran.

Iraqi Arabs view the Kurds as their greatest long-term problem. The Kurds, who form almost a third of the population, are struggling to form a state embracing territories carved mainly out of Iraq and Turkey. In the 1960s, Iraqi Arab regimes turned to the Soviets to purchase arms needed to wage new campaigns against the Kurds. However, the Kurds soon came to obtain their own Soviet arms, and Iraqi forces could not dislodge the Kurdish forces from their mountain redoubts.

In 1972, Iraq signed a friendship pact with the Soviet Union, in order to stop the flow of arms to the Kurds. The Kurds then turned to the Shah of Iran, who allowed Kurdish guerrilla groups to operate freely from Iranian territory. Kurdish attacks persisted until 1975, when Iraq reluctantly consented to Iranian demands for border adjustments in the disputed Shatt al-Arab waterway in return for an Iranian promise to stop harboring Iraqi Kurds. Nevertheless, in the wake of the 1979 Iranian revolution, Iran's military control of Kurdistan lapsed, freeing the Kurds to mount new attacks against Iraqi garrisons.

Sensing an opportunity in a moment of apparent Iranian weakness, Iraq in September 1980 launched a full-scale attack across the Shatt al-Arab. As Iraqi forces pushed deeper into Iranian territory, Baghdad expected Tehran to sue for peace. Iran's immediate response, however, was to use its air force to destroy Iraq's petroleum and industrial complex at Fao.

By early 1982, the land war's momentum shifted in Iran's favor as Iranian forces waged a war of attrition against the invading forces. Iran forged links with Iraqi Kurdish groups, who helped

open a second front against the Iraqis. By 1984, Iraq was forced to withdraw most of its forces from Iran, and to re-deploy them along the border, to stop Iranian attacks. Iraq at this time took steps to secure a wider group of allies. Even while stepping up arms purchases from the Soviets, Baghdad began buying military equipment from Brazil, China, Egypt, France, and other countries.

In spite of superior Iraqi firepower, Iranian forces launched a successful series of offensives into Iraqi territory. Iranian forces broke through Iraqi defenses to capture Kurdish territory northeast of Baghdad; the Fao peninsula; and the marshes and islands abutting Basra, Iraq's second largest city. In the last few months, however, Iraqi forces, using chemical weapons, recaptured both Fao and the marshes east of Basra. Early last week, of course, Ayatollah Khomeini asked for an unconditional cease-fire, which the Iraqis have neither accepted nor rejected. On Friday, however, Iraqi forces attacked up and down the border, plunging 40 miles into Iraq. This may be last-minute Iraqi jockeying for position; but it is more likely that Iraq is pushing to obtain at least some kind of semi-victory before both sides finally lay down their arms.

It is impossible to forecast developments in Iraq's conflict against Iran and the Kurds, yet some observations can be made. First, Baghdad will insist on a peace settlement which addresses Iraqi concerns about the Kurds and about border disputes. Witness Iraq's call for a clearing of the Shatt al-Arab before a cease-fire. Further, even if an armistice is arranged, Iraq cannot ignore the long-term Iranian threat, and is likely to invest heavily in rearmament. Iraq will likely take the opportunity to strengthen its offensive posture against the Kurds. Finally, Baghdad will persist in courting foreign powers willing to provide arms and other support. However, Iraq will not enter into any stable political or military alliances, or agree to any quid pro quo in return for foreign support.

In all of these years of warfare, the Iraqis have gained an appreciation for technology. Back in the 1960s and 1970s, in their battles against the Kurds, Iraqi Arabs learned the value of modern military technologies: tanks, APCs, helicopters, field artillery, and automatic weapons. In the war against Iran, the Iraqis knew that eventual victory depended on the mastery of technology. On the battlefield, Iraq has used mobile infantry units, electronic surveillance, mine fields, controlled flooding, mustard gas, and nerve gas. Against Iranian air raids, Iraq has used SAM missiles and air interception. In its raids on Iran-bound shipping, Iraq has used high-altitude bombing, dive bombing, heat-seeking missiles, and long-range refueling. In missile attacks on Kharg Island and Tehran, Iraq has even used second-stage boosters.

Iraq's quest for advanced technologies is not limited to military equipment. A taste in high technology was acquired during the

1970s oil revenue and investment boom, but is now reinforced by the brilliant display of technology in response to the war. Throughout Baghdad's civilian ministries, and in the fledgling private sector, Iraqis now want to purchase only goods embodying the very best in modern technologies.

By the late 1980s, Iraqi Arabs had hoped to establish an advanced, diversified economy, which would produce and export a wide variety of manufactured and agricultural goods. However, the war forced an interruption of Iraq's ambitious plans. Now, after nine years of war, Iraqi Arabs are anxious to restart their stalled development program. Saddam has already placed new Western-trained technocrats in key ministries, and has allowed them a hand at restructuring parts of the economy. Saddam's efforts are aimed primarily at giving leverage to existing, low levels of development spending. They won't improve Iraq's foreign exchange shortage, but they do prepare Iraq for the day when more foreign exchange becomes available.

Saddam's new ministers are fingering old blueprints for expanded oil capacity, as well as for oil refineries, power plants, hydropower/irrigation projects, petrochemical plants, plastics plants, aluminum and steel plants, and other manufacturing facilities. They have done their research, and identified and even contacted specific foreign suppliers of desired products.

Many of these suppliers are in the United States. The Iraqis are impressed by American high technology. However, the Iraqis understand, quite painfully, that importing high-technology goods, from the United States or elsewhere, will ultimately require foreign exchange. In Iraq, foreign exchange remains a centrally-administered and highly-rationed commodity.

Iraqi Arabs are proud that their country (including Kurdish provinces) contains the world's second largest oil reserves. However, the size of Iraq's reserves is less relevant than crude oil revenues. In spite of Iraqi optimism, Iraq's oil revenues have been inadequate to finance both arms purchases and economic development. Oil revenues have also proven quite unreliable. Baghdad has often miscalculated the amount of oil revenues available to meet Iraq's financing needs.

Early during the war, Baghdad made three serious miscalculations. First, Baghdad assumed the survivability of its Gulf oil terminal. Secondly, Iraq assumed that Syria would keep open Iraq's pipeline to the Mediterranean. And third was that oil prices would continue to keep rising, perhaps to \$50 per barrel. When Iraq was proved wrong all three counts, Iraq's oil revenues fell from \$25 billion per year to \$10 billion.

In 1983, Iraq started building new export pipelines. Since Iraq planned oil export capacity of 1.5 mb/d by 1985, and 2.2 mb/d by 1987, Baghdad came to expect a doubling of oil revenues by 1985, and a tripling by 1987. However, Baghdad had made yet a fourth

miscalculation: that oil prices would remain at \$30 per barrel. Iraq's expectations were dashed by the 1986 oil price collapse, which more than offset the entire impact of the expanded Turkish pipeline and the new pipeline through Saudi Arabia. Iraq's oil revenues fell to \$7 billion.

In 1987, Iraq benefitted from a mild recovery in oil prices, and from the opening of its second pipeline through Turkey. However, 1987 oil revenues were still no greater than in 1985, before the oil price collapse.

With yet another pipeline under construction to Saudi Arabia, the Iraqis are making new oil revenue calculations, based on theoretical export capacity of 3.2 mb/d. The Iraqis planners are probably counting on oil revenues to regain pre-war levels by 1990. But Iraq is probably making yet a fifth miscalculation.

Baghdad's further efforts to increase export volumes run counter to OPEC efforts to impose production discipline and stabilize oil prices. With the coming on-stream of the second Turkish pipeline in 1987, Iraq effectively graduated from a price-taker to a major price-maker. To move additional oil, Iraq has been forced to undercut competitors, even other OPEC countries. Iraq's escalating production and predatory pricing actions are key factors depressing world oil prices, and are even counterproductive.

With weak global oil demand, and surplus OPEC capacity, the coming on-stream of the second Saudi pipeline will serve to drive down world oil prices still further. It is conceivable that Saudi Arabia, which has the most to lose from a worsening oil glut, might limit throughput to forestall disastrous price declines.

More likely, however, is a diplomatic solution in which Iraq would be offered an output quota equal to the one now in force in Iran. Baghdad had demanded such parity, but dropped its demand in 1987 when Iraqi oil output came to exceed Iranian output. Parity with Iran would leave Iraq's oil export revenues little changed from current levels, frustrating again Baghdad's projections of petroleum prosperity.

The inadequacy and unreliability of oil revenues has forced Iraq to rely on massive external financial assistance, in the form of grants, loans, and reschedulings. Iraq's hard-currency external debt (not including any grants from Saudi Arabia and Kuwait, or debts on clearing accounts with the Soviet Union) is today greater than the external debts of Algeria, Chile, Nigeria, or Yugoslavia. Nevertheless, Iraqi Arabs are far too proud to consider their oil-rich country a debtor nation.

Bilateral reschedulings with two-to-four year repayment terms have left Iraq's debt service payments "bunched", maintaining a much higher debt service burden than countries which have

received multilateral debt "stretch-outs." A Paris Club, or its equivalent, would ease Iraq's financial difficulties. However, the Iraqi Arabs would consider a multilateral rescheduling a severe blow. After all, neither Iran nor its Arab Gulf brothers have suffered such humiliation.

Baghdad does not accept the concept of debt, or the principles of normal debtor-creditor relations. It considers external financial assistance a two-way street, serving not only Iraq's aims, but the military, political, and economic interests of creditors. Hence, Iraq does not accept the principles of financial disclosure, public multilateral negotiations, and equitable treatment of creditors. Rather, Iraq pursues a ruthless strategy of securing strategic financial partners, employing financial secrecy, private bilateral negotiations, and blatant unequal treatment of creditors.

Iraq's preference for secrecy has pre-war roots. Baghdad's money managers have long been considered as discreet as the Swiss. Before the war provided a good excuse for not releasing any financial data, Iraq would refuse to release information on the size and whereabouts of foreign assets. Today, Baghdad offers no data on trade, military spending, borrowing, or debt.

Baghdad's preference for bilateralism and creditor discrimination also has pre-war roots. Baghdad has long conducted the bulk of its foreign trade under Soviet-style bilateral arrangements. Such arrangements are inherently discriminatory, in that Baghdad has every incentive to make agreements with trading partners which offer the best terms.

In extending the philosophy of trading arrangements to relations with creditors, Baghdad regularly uses default to obtain the best possible rescheduling and new money deals from its creditors. Baghdad downgrades the importance of repayment, viewing loans as providing creditors immediate payback in terms of increased access to the Iraqi market. Financial repayment is not viewed as an action required of any responsible borrower, but rather as leverage to secure even greater financial resources. Oil deliveries are an acceptable and even preferable means of clearing overdue accounts.

Baghdad wants nothing less than to develop strategic financial partners, whose self-interest in providing credit to Iraq extends beyond the receipt of payments. Iraq's strategic financial partners must be willing to sacrifice repayment in return for heightened Iraqi military security, greater exports to the Iraqi market, or simply increased political goodwill.

The most well-known of Iraq's strategic financial partners are Saudi Arabia, Kuwait, Turkey, and Jordan. Saudi Arabia and Kuwait have poured untold billions of dollars into Iraq, mostly from oil from the Saudi-Kuwait Neutral Zone. All of this money is carried on the books of the Saudi Arabian Monetary Agency, the

Saudi central bank. However, no one can realistically count this money as debt, because it is never going to be paid back. You would think that Iraq would be grateful for this assistance. No, Iraq considers this money as owed to Iraq, for providing a front-line defense against Iran. Ambassador al-Anbari even told me that Iraq considers the Neutral Zone oil as Iraqi oil.

The central banks of Turkey and Jordan provide credits to Iraq to support sales by Jordanian and Turkish firms, just like Eximbank does. However, Ankara and Amman have been forced to accept crude oil in repayment of outstanding debts, and arrears now run into the billions dollars. Iraq discounts the importance of repayment. It thinks Jordan and Turkey have already received benefits, in the form of increased access to the great Iraqi market.

Western governments have also provided financial support to Baghdad, largely in the form of export credits. Export credit agencies took major hits on export guarantees to Iraq over 1983-1984, resulting in a massive build-up in their direct exposure. In 1986, the ECAs faced bilateral reschedulings of the debts they assumed earlier. Iraq interprets these reschedulings as "new credits", and indeed they are nothing more than pure balance of payments assistance. In these reschedulings, the ECAs have deferred payments for 2-4 years, and most offered to accept partial repayment in crude oil. Because of their bad experience in the 1986 reschedulings, the ECAs now take a very cautious attitude toward Iraq.

Several ECAs offer highly-circumscribed short-term cover. However, only Australia's EFIC, the United Kingdom's ECGD, and the United States' CCC are open for medium-term cover. This is because they are getting paid on time. You heard it right, they are getting paid on time. Why are they getting paid? And why is everybody else rescheduled? Is it because of the political or military support offered by their governments? No, France has provided much more of both. Is it a reward for overwhelming economic support over the years? No, France, Germany, Japan, and Italy all have greater exposure. Italy even financed the pipeline through Saudi Arabia.

Rather, the three enjoy favored creditor status because they are all offering new, large, and increasing programs of medium-term export credits. CCC alone is offering \$1 billion. It would be a tactical mistake for Baghdad to miss payments to these creditors. When these export support programs are diminished, and once repayments begin to exceed new credits, Baghdad will find it necessary to seek reschedulings of these debts, in order to secure balance of payments support.

Iraq is currently cultivating Eximbank as a new source of long-term external financial support. Baghdad hopes to appeal to U.S. national security interests in obtaining yet another strategic financial partner. Also, Baghdad is dangling large high-

technology projects in front of well-known U.S. firms, but with one caveat: that they can go forward only with Eximbank support.

The Iraqis envision an Eximbank program capable of supporting several large oil and power projects. For this reason, they are unhappy with the current short-term facility. The Iraqis are interested in discovering Eximbank's intentions on long-term credit in advance of due dates on the short-term facility. As long as Baghdad believes there is a high probability of long-term credit, it will probably treat Eximbank as a favored creditor and make payments on the short-term facility. This is why, Mr. Chairman, the Minister of oil asked you to about today's country review.

However, a large long-term program presents its own risks. Iraq's political and economic outlook provides no confidence in its willingness to repay the bulk of its foreign debts. Unless Eximbank were to commit itself to a large program of long term credit, followed by consecutively larger lending programs, Iraq has no incentive to keep repaying.

I'd like to follow this up with a story. When Haldridge and I were in Baghdad, every important government financial official told us that we didn't have to worry about getting repaid because Saddam Hussein himself had sent around a circular which said, very simply, Pay the Americans! I have to admit, this seemed reassuring to me, but only for a while. I then realized that, in Iraq, what Saddam giveth, Saddam can taketh away. This is the way the Iraqi Central Bank and Finance Ministry are run.

I'd like now to turn to the list of common myths about Iraq. These are statements that you often here bandied about. When I use the term myth, I am relying on the following definition of a myth: "A notion based more on tradition or convenience than on fact: a received idea." I am not implying that there is absolutely no factual content to these myths. Often, myths do have some basis in reality. However, I do believe the factual content of all of these myths is much lower than 50%.

July 1988

MYTHOLOGY ABOUT IRAQ

MYTH #1: Iraq is one of the largest markets for U.S. exports in the developing world.

Reality: The myth of the Iraqi market is based on two or three years of huge imports around 1980. The Iraqi market was not among the largest before that, nor is it now. Iraq in 1987 was the 28th largest importer (of civilian goods) among non-OECD countries. An end to the war alone does not imply a financial bonanza for Iraq. The conditions existing in 1981--simultaneous 4 mb/d production and \$30 per barrel oil-- will not return. Any dramatic increase in imports depends on the uncertain prospect of substantially higher oil revenues and the willingness of creditors (such as Exim) to finance the creation of a larger Iraqi market.

MYTH #2: Because of its vast oil reserves, Iraq must be a highly creditworthy country.

Reality: Large oil reserves do not imply high oil revenues. Oil revenues depend on oil export capacity and oil prices. In spite of valiant efforts to boost oil export capacity, Iraq's oil revenues remain at half their level of the early 1980s. Neither oil export capacity, nor oil prices, are guaranteed to work in Iraq's favor in the future.

MYTH #3: Iraq is perfectly willing to repay creditors; it just does not have the ability to repay right now.

Reality: Because its debt has a short maturity structure, Iraq cannot pay all its debt service. Moreover, Iraq has an attitude problem regarding foreign debt. Iraq only fully repays creditors who offer large new loans. If creditors don't offer new loans, Iraq simply fails to pay, and demands bilateral rescheduling arrangements involving oil barter. This strategy permits Iraq to secure project financing, as well as pure BOP assistance.

MYTH #4: Iraq hit rock-bottom in 1986; since then, Iraq's finances have already gotten a lot better.

Reality: The oil price collapse (and Iranian military victories) of 1986 took the Iraqis by surprise; for a time, they weren't even answering communications from creditors. Today, they are better organized, but within an Iraqi context. Iraq has become more sophisticated in its calls for bilateral reschedulings, and in its cultivation of potential creditors (such as Exim).

MYTH #5: Iraq's financial problems are temporary; when the next oil pipeline opens up, things will get better.

Reality: Pipeline capacity has more than tripled since 1984, without significant effect on total oil revenues. Weak oil prices, caused in part by Iraq's larger output, offset volume increases. In the long run, oil revenues will depend on Iraq's ability to influence OPEC decisionmaking, to the detriment of moderates like Saudi Arabia. Iraqi attempts to increase oil export volumes may lead to lower world oil prices and thus dampen Iraq's own oil revenues.

Source: Export-Import Bank Country Risk Analysis Division

MYTH #6: The end of the war with Iran, and thus of Iraq's financial problems, is just around the corner.

Reality: The "cease-fire" does not guarantee an effective peace accord. Even if the war with Iran should formally "end", Iraq is not likely to ignore the continuing threats posed by Iran and the Kurds, and will not drastically reduce military spending. Furthermore, Iraq will undertake a costly reconstruction, at the expense of debt repayment. To sustain the benefits of playing one creditor off the next, Iraq will avoid a multilateral Paris Club rescheduling, and continue to use default as a device to secure continued financial assistance.

MYTH #7: Closer ties between the U.S. and Iraq will ensure Exim repayment, even if other creditors are not being paid.

Reality: Relations between Iraq and the U.S. are not guaranteed to be warm, because the principal U.S. interest in the region is not in supporting Iraq's objectives (a peace settlement which favors Iraqi border claims, and an end to the Kurdish threat), but in ending the Gulf War. Even if the U.S. offered political and material support to Baghdad, Exim repayment is still not guaranteed. Iraq does not fully repay countries (such as France, Italy, Japan, or Turkey) which have been important to Iraq's military or economic effort, because Iraq believes these creditors have already received a payoff in the form of greater access to the Iraqi market. Iraq will view Exim credits as something the U.S. does in its own self-interest, not in Iraq's.

MYTH #9: Iraq pays CCC; the Iraqis believe we're all one government so they'll repay us, too.

Reality: Iraq pays CCC, and two other export credit agencies, because they have been offering consecutively larger programs of new medium-term credit. Nizar Hamdoun and other sophisticated observers of the American scene know that Exim and CCC do not speak with the same voice. If Exim becomes a "favored creditor", it is only because Baghdad believes that we too will eventually commit to larger and larger programs of long-term credit.

MYTH #10: Iraq is no less creditworthy than other heavily-indebted countries where Eximbank is open.

Reality: Creditworthiness has two components, ability and willingness. In the long run, Iraq may have greater ability to repay than many countries. However, Iraq has demonstrated a clear unwillingness to adopt normal debtor-creditor relations. Iraq is more aptly compared to Peru (which pays when it wants to), than to Yugoslavia (which makes a valiant effort) or Argentina (which at least pays lip service to the IMF and the Paris Club).

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NAC MEETING 88-33
August 16, 1988
Page 1

c) Iraq - GSM-102 \$1,000 million; GSM-103 \$100 million
FY 1989 program (NAC Doc. 88-89)

The *Agriculture* representative presented the proposed FY 1989 CCC guarantee program for Iraq, which was similar, in size and coverage, to the FY 1988 program. He noted that Iraq was current on its CCC payments with the exception of a disputed penalty interest payment that should be resolved shortly.

The *Treasury* representative opposed the large size of the program. She stated that *Treasury* position, as it had been with respect to the FY 1988 program, was that \$600 million was a reasonable credit limit for Iraq, given its huge current accurate deficit and its recent bilateral reschedulings. In response to a question, *Treasury* was told that \$5 million of the GSM-102 line was to guarantee leather sales.

Responding to a question from the *State* representative regarding the volume of agricultural exports to be covered under the FY 1989 program as compared to the FY 1988 program, the *Agriculture* representative stated that, due to higher commodity prices, if the program size was held constant in dollar terms it would fall by up to 30 percent in terms of the volume of commodities shipped. In light of this, the *State* representative favored maintaining the CCC program for Iraq at the same level as in FY 1988, but not increasing it.

The *Eximbank* representative stated that recent Iraqi arrearages to Eximbank were due to technical, not creditworthiness, problems. She also noted that no decision had been made by Eximbank's board regarding opening for coverage on a medium-term basis in Iraq.

(After the meeting the *Federal Reserve* representative joined the *Treasury* representative in opposing the transaction, agreeing that \$600 million would be a more appropriate level given Iraq's current financial condition.)

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United States Department of State
Washington, D. C. 20520

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26 SEP 13 P1:26 September 13, 1988

ACTION MEMORANDUM
SECRET/NOPTS *S/S* *9/12*

TO: The Secretary

THROUGH: P - Michael B. Armacost *MB*

FROM: PM - H. Allen Holmes *HAH*
NEA - Paul Hare, Acting *yfr*

SUBJECT: U.S. Policy Toward Iraqi CW Use

ISSUE FOR DECISION

How to respond to Iraqi use of chemical weapons against the Kurds.

ESSENTIAL FACTORS

In deciding how to respond to Iraqi use of CW against its Kurdish population, the U.S. has two closely related objectives:

- To deter further use of CW by Iraq and other countries; and
- To delegitimize the acquisition and use of CW by potential proliferators worldwide.

In essence, there are two means of accomplishing these goals. First, the U.S. and other concerned countries can exert public pressure on Iraq to forswear further CW use, relying mainly on diplomatic and moral suasion. Second, we can employ sanctions (on a multilateral or bilateral basis) to reduce the political, economic, and military benefits Iraq derives from relations with the U.S. and other countries.

The U.S. has a large stake in preventing further Iraqi use of chemical weapons. Iraq's use of CW during the war and the failure of the international community to mobilize an effective response has lowered the inhibitions on CW use and may have conferred a measure of legitimacy on use of these weapons in the region and elsewhere. It has also encouraged other states

NOPTS REVIEW	
<p>Cat. A - Caption removed; transferred to O/FACRC</p> <p>Cat. B - Transferred to O/FACRC with additional access controlled by S/S</p> <p>Cat. C - Caption and custody retained by S/S</p>	<p>Reviewed by: <i>EJH</i> <i>9/16</i></p>

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to acquire a CW capability. Indeed, several countries -- including Syria, Libya, and Iran -- have or will attain the capability to deliver CW over long distances with ballistic missiles. Some of these countries, as state sponsors of terrorism, could supply terrorists with CW. (An overview of CW use by Iraq and others is at Tab 1.) The worldwide spread of CW capabilities poses a serious threat to international security and in particular to U.S. friends in the Middle East including Israel, Saudi Arabia, and the smaller Arab Gulf states. In short, as a result of CW use during the Iran-Iraq war, the credibility and effectiveness of our global CW policy has been weakened. It is imperative, therefore, that we act now to shore up our CW non-proliferation policy.

There are, however, limits on the U.S. ability to influence Iraqi policy on CW use and other human rights violations against the Kurds. Over the years, U.S., UN, and European condemnation of Iraqi CW use has had virtually no effect on Iraqi behavior. Saddam Hussein has repeatedly ignored international opinion and the U.S., despite improved relations with Baghdad, has had little success in influencing Iraqi policy on issues affecting important Iraqi interests. Moreover, existing export controls on CW precursors and equipment have not stopped Iraq's CW program -- only slowed its pace. It will be difficult indeed to extract from Iraq, particularly under an international spotlight, assurances that Iraq will not use CW in the future against its Kurdish population or in defense of Iraqi territorial integrity, except in response to a CW attack. Indeed, even if Iraq agrees to issue a public statement abjuring future use of CW, it will be difficult to assert that such an undertaking is credible. (An overview of the Kurdish problem is at Tab 2.)

Nonetheless, there are potential levers available to the U.S. which would grab Iraq's attention as well as squeeze it economically. (These measures are listed at Tab 3.) There is no doubt that the use of political and economic sanctions, particularly if they were adopted on a multilateral basis, would affect future Iraqi calculations on CW use and send a powerful signal that the U.S. is prepared to put some teeth into its worldwide CW policy. However, with Iraq's amnesty announcement and invitation to Western journalists, Iraq's current CW campaign against the Kurds may have come to a halt. Before international attention recedes, we need to act quickly to accomplish our objectives.

There are also risks associated with adopting a tougher stance on Iraqi CW use. In particular, there is the harm it could cause to our bilateral relationship, the impact it might have on our position within the Arab world especially among

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Iraq's Arab allies, and the effects on Iraqi policy toward the ceasefire negotiations and a comprehensive settlement of the Iran-Iraq war. (The impact on the bilateral relationship is discussed in Tab 4.)

Finally, we will need to pay careful attention to our legislative strategy. The Congress is moving quickly on legislation to impose sanctions against Iraq. The Pell bill adopted by the Senate (S. 2763) would impose an immediate trade embargo against Iraq. It would prohibit: 1) all U.S. exports to Iraq; 2) all U.S. Government credits or assistance; 3) all imports of Iraqi oil or petroleum products; and 4) would require the U.S. to oppose loans by international financial institutions. The bill has many of the objectionable features of other sanctions bills, (e.g., the lack of any exceptions), and will probably result in criticism by our Allies because of its extra-territorial scope. The bill charges Iraq with "genocide", and makes other charges which are not supported by the facts as we know them. (Text of the Pell bill at Tab 5.)

HFAC may mark up the Lantos bill, which is identical to the Pell bill, as early as today. It is possible, however, that HFAC Chairman Fascell will decide to amend the Berman Resolution, which condemned the use of CW by Iraq in the Iran-Iraq War and expressed concern about its use by Iran. Fascell may try to refashion the resolution to include language condemning the use of CW against Kurdish civilians in Iraq. This House action, in the form of a non-binding resolution, would be considerably more acceptable than the binding resolution put forward by Lantos. Nonetheless, we remain faced with the prospect that the Lantos/Pell bills will be approved by both House and Senate. If so, many of the actions contemplated by this memorandum would be overtaken by events.

All Bureaus concerned agree that legislative action at this time is premature, and that the current bill is too sweeping in content. We have conveyed to HFAC our objections to the bill, stressing that the Administration should be given time to work to obtain credible and public Iraqi assurances that Iraq will abide by its obligations under the Geneva Protocol and renounce CW use. In the meantime, we could proceed with immediate implementation, as appropriate, of the measures you decide on. We would continue to work with the HFAC to develop an acceptable bill which is consistent with the Administration's position and which is factual in its description of Iraqi behavior.

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ANALYSIS OF OPTIONS

The U.S. has five broad options, ranging from aggressive public diplomacy and multinational pressures to the severe sanctions embodied in legislation now being circulated on the Hill. The advantages and disadvantages of each option depend primarily on how the costs, the impact on bilateral ties and implementation of UNSCR 598, and the benefits, principally deterrence of future use of CW, are judged.

The first option, which proposes a more assertive U.S. public stance toward CW use but avoids threats directed at Iraq, lays the necessary groundwork for unilateral U.S. action and U.S. participation in or leadership of a multilateral effort. Options two through six are predicated on the assumptions that (1) unless we are willing to raise the costs to Iraq of its CW use, it will be impossible to get the CW genie back in the bottle; and (2) that Iraq has strong incentives to improve relations with the U.S. and to reach a settlement with Iran, and that frictions created by our tougher position are outweighed by the gains for our CW policy.

Finally, the following options represent broad approaches. Specific actions listed under each option can be implemented in whole or in part. Nor is the list of measures exhaustive; a more complete list (at Tab 3) contains a number of measures which we judge as too extreme to be practical at this time.

Option 1: Intensify CW Public Diplomacy Campaign

The U.S. made very tough statements on Thursday, accusing Iraq of CW use. We must sustain a strong public posture on the issue, for whatever actions we ultimately take will be grounded in the public position we stake out during the remainder of this month.

There are several public diplomacy actions we could take over the coming weeks, mainly of a symbolic nature, to delegitimize CW use and to demonstrate the depth of our concern over Iraqi CW use. In essence, the effect of these actions would be to reiterate and underscore our Thursday statement, based on the principled position that CW use against defenseless civilians is wrong under any circumstances and in violation of international law. (Legal implications are reviewed at Tab 6.) There are several opportunities over the coming weeks to make this point including a White House statement (described at Tab 7) to be made as soon as possible this week, the President's address to the UNGA on September 26, publication of an Administration White Paper on CW use by Iraq, and statements made following high level meetings between U.S.

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and foreign officials. In addition, we should encourage our European Allies to adopt a similarly high public profile on the Iraqi CW issue, including making and publicizing their own demarches. (The potential for European cooperation is discussed at Tab 8.)

The Legal Adviser believes we should also explore the possibility of raising the CW issue as part of the ongoing ceasefire discussions between Iran and Iraq under the auspices of the SYG. For example, Resolution 598 provides for the establishment of an impartial body to determine responsibility for the conflict, which is understood to include responsibility for the continuation of the conflict; and Iraq's massive use of CW could be seen as one of the relevant factors in the continuation of the conflict. L recommends that the U.S. consult with the other Permanent Members and the SYG on the possibility of pursuing this or similar approaches. Even if unsuccessful in the end, our efforts would demonstrate to Iraq the seriousness of our concerns, and of the possible long-term consequences of their use of CW.

IO and NEA believe it would be a mistake to involve the highly contentious question of CW use within Iraq in the already difficult peace negotiation between Iran and Iraq. It would be stretching the mandate of the impartial body considerably to add CW; and, politically, it would make it hard for Iraq to work with a body which Tehran insists upon and Baghdad opposes. Whatever the potential legal linkage, the political linkage would be highly adverse to our interest in a settlement. Accordingly, IO and NEA believe our other approaches to this issue in the UN, as discussed in this paper, are far preferable to further complication of the 598 process. NEA further believes that such an approach would be welcomed by Iran and would be read by others as a U.S. signal to Iran that we are prepared to adjust our policy in order to seek a more normal relationship with Iran. NEA has reservations regarding this approach because we have resisted becoming involved in the details of the negotiations and to do so at this time would create undesirable precedents.

Option 2: Freeze Chemical and Military Exports Pending Iraqi Assurances on CW Use

This option, which is favored by all Bureaus except EA, assumes that effective international pressures cannot be mobilized and that further rhetorical condemnation will not be sufficient to put the bite on Iraq or to arrest the erosion of restraints on the use of CW. Under this option, which could be implemented in conjunction with Options one, three and four, the U.S., in consultation with the Allies, would impose an

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embargo on all chemicals, chemical processing equipment, and laboratory instrumentation, and would ban the export of all items on the munitions control list. The latter sanction can be imposed -- and lifted -- relatively quickly. However, quick implementation of a total, unilateral chemical embargo may require Presidential action pursuant to the IEPA. Implementation of a mandatory UN ban, however, could be accomplished quickly under the authority of the UN Participation Act.

Simultaneously with the imposition of sanctions, we should seek to coordinate Alliance-wide sanctions. The participation of our allies in an embargo would increase its effectiveness and carry greater political weight than a unilateral U.S. effort. However, we should not permit coordination with allies to delay or veto U.S. implementation of sanctions.

If we do adopt these sanctions, we need to give careful consideration to the circumstances under which they might be lifted. It will be important, therefore, to give Iraq the chance to address our CW concerns. We would propose that these embargoes remain in place pending the outcome of special consultations and receipt of public Iraqi assurances regarding non-use of CW except in response to CW attack. Consultations should be carried out by a special presidential envoy.

Although this option is still largely symbolic -- given alternate sources of chemicals and related end-items and the minimal level of U.S.-Iraqi military trade -- it would have some practical effect and, more important, would underscore U.S. determination and signal that we are prepared to take more forceful action in the future.

The disadvantage to this approach is that it may harden Iraq's position and leave us with a deadlock, despite our efforts to maintain a dialogue and keep our actions strictly in the context of Iraq's CW use. Iraq's insistence that chemical weapons were essential to its national survival suggests why U.S. and UNSC efforts to halt Iraqi CW use, in the context of the ongoing war, were ineffective. However, given a victorious Iraq -- and now probably quiescent Kurdish population -- it may be possible to press successfully for Iraqi action and undertakings.

All bureaus believe that aggressive public diplomacy and demarches constitute a necessary, although not sufficient, U.S. response. Iraq may not be deterred by U.S. sanctions from future use of CW. However, by raising the cost to Iraq of using CW, the U.S. can, in effect, make an example of Iraq that could deter other potential users, like Libya, while endowing

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the U.S. stand with greater credibility. Finally, we have to also carefully calculate the impact on cease-fire talks of a freeze on chemical and weapons exports; but, on balance, we believe that Iraq's position in the cease-fire talks will be determined by its strategic objectives vis a vis Iran and the costs and benefits of renewed fighting -- not by measures we or the international community take in response to CW use. Thus, the near term risk to U.S. interests of a more aggressive response would be limited.

We already ban the export of 17 chemical precursors to Iraq. EB would support a unilateral embargo of any other chemical precursors, including those with dual use, and any military equipment. EB believes a unilateral embargo on all chemicals, chemical processing equipment, and laboratory instrumentation will deny U.S. firms the opportunity to participate in the reconstruction of the Iraqi oil and chemical industries. Many of these installations were damaged during the Iran/Iraq war and are in need of repair and/or rebuilding.

Ex-Im reports that it has outstanding guarantees for the export of some \$75 million in agricultural and petroleum industry chemicals and chemical products for Iraq. These products are generally available from other sources; stopping their export by U.S. firms will not deny Iraq access to the products.

EB believes the same is true of chemical processing equipment and laboratory instrumentation. Our exports in these product areas have been flat over the past three years. However, with the end of the war, we expect Iraq to make major purchases of chemical processing equipment and laboratory and control instrumentation, not to build a CW capability, but rather to restore their petroleum processing industry. Again, this equipment is available from multiple sources. Since these would be mainly West-West sales, most would not require COCOM licensing.

EB believes we should consider a multilateral embargo of all products used in Iraq's petroleum industry. This would include not only chemicals but also capital equipment, spare parts, etc. The threat of a coordinated embargo that would impair Iraq's export capability would be more likely to carry weight with Iraq than measures that damage primarily U.S. exporters. All other bureaus agree that a multilateral embargo would be highly desirable, but maintain that if a multilateral effort is not achievable, the U.S. should be prepared to act unilaterally.

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Option 3: Organize Multilateral Pressure

There are three main components to this approach: action at the UN, working through established fora to stop the further use and spread of CW, and encouraging our European allies and others to adopt a high profile on the Iraqi CW use issue. UN action would be more immediate but is problematic. (Possible UN options are described at Tab 9.)

As a first step at the UN, we and several of our allies on the Security Council (UK, FRG, Japan) requested on September 12 that the UN Secretary General send a team of experts to Turkey and Iraq on an urgent basis to investigate reports of CW use. UNSC Resolution 620 (1988) calls for such investigations when use of chemical weapons in violation of international law is reported. We are also seeking support for this initiative from the Soviets, Chinese, and other Council members. Assuming CW use by Iraq against the Kurds is sufficiently documented, we could then seek Council agreement to take certain actions. The strongest response (and most difficult to achieve) would be mandatory sanctions under Chapter VII of the UN Charter. Under this authority, for example, the UN could impose a total embargo of all exports to Iraq of chemicals and chemical processing equipment. The imposition of mandatory UN sanctions would require automatic participation by members in the embargo and would thus eliminate for many countries the need to seek domestic statutory authorities for such action. However, there have been very few cases of mandatory sanctions in UN history and strong opposition would be expected. Possible alternatives include Council condemnation of Iraq, a call on Iraq to dismantle CW production facilities, or a renewed call on Member states to control exports to Iraq of chemicals and equipment used to manufacture CW.

There are potentially significant benefits to a multinational approach. It would make Iraqi CW use less of a bilateral issue and demonstrate that the international community is prepared to take forceful action against Iraq. It would also strengthen the international standard against CW use and thus bolster the credibility of our global CW non-proliferation policy.

U.S. efforts to organize UN action against Iraq already have triggered a negative Iraqi reaction. Iraq may not cooperate fully with a UN investigation, although we believe Turkey would find it difficult to refuse a formal request from the SYG. Also, Iraqi officials have themselves suggested that an investigative mission visit the region. Assuming sufficient evidence is found by UN experts, it is not clear there would be sufficient support in the Council for strong action against

Iraq. Some members may argue that Iraq's internal affairs are not an appropriate matter for Security Council consideration. (We will argue that Council action is justified because Iraqi actions violate international law. We are also prepared to cite the precedent of UN sanctions imposed against South Africa largely on the basis of human rights violations under apartheid.) Nonetheless, a vigorous U.S. effort to obtain favorable UNSC action would be a useful demonstration of the strength of our views, and other members may find it difficult to vote against us on an issue of such widespread humanitarian concern. In the medium term, we may also want to consider possible action against Iraq in the General Assembly or in the UN Human Rights Commission.

It will also be important to bring international pressure to bear on Iraq through other international fora, such as the CD and the Australia Group. Equally important, we will need to encourage our allies and others to adopt a high public profile on Iraqi CW use. Therefore, we should initiate demarches, particularly with allies friendly with Iraq and with the Arab Gulf states, to coordinate our efforts and public statements.

Thus far, the Soviets have refrained from condemning the Iraqis by name for their use of CW. However, at the June Moscow summit, the U.S. and USSR strongly condemned the spread of illegal use of CW. It is critical that the issue of Iraqi CW use be included in your talks with Shevardnadze later this month, and that we work to develop a joint ministerial statement condemning Iraqi use of CW. We can pave the way for such a statement by explaining our approach to Iraqi CW use to the Soviets now and urging them to take a stronger public stand. (A discussion of multilateral forums concerned with CW is at Tab 10.)

Option 4: Suspend Transfer of Ex-Im Bank Credits

In July 1987, the Board of Directors of the Export-Import Bank authorized the resumption of short term insurance cover for Iraq with an overall exposure ceiling of \$200 million on one year terms. As of August 11, 1988, the Central Bank of Iraq has cleared the issuance of up to \$175 million; \$140 million in letters of credit have been issued; and, \$20 million of product covered by the guarantee program have been shipped. \$25 million remains available for new commitments. According to Ex-Im, the bulk of these commitments are in agricultural and petroleum industry chemicals, and equipment for two tire factories.

Other debt guarantees falling due include \$7.5 million between October 1988 and January 1989, and \$3.8 million between

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May and July 1989. The Bank Board is considering the extension of \$100 million in medium term (5 to 7 years) lending for Iraq.

Should Iraq reject U.S. attempts to establish a dialogue regarding assurances, or renew its use of CW in the near term, PM, EUR, HA, IO, and S/CT believe we should indicate to the Ex-Im Bank that we no longer favor a change in Ex-Im Bank policy to provide medium term credits to Iraq (\$100 million over 5-7 years). In addition, we could request that the Bank not provide letters of credit for the \$25-55 million in short term credits still available for commitment. In either case, we should discourage the Chairman from making a scheduled October trip to Baghdad and ensure that the GCI understands the reason for cancellation. This measure is advantageous in that it can be imposed and repealed quickly, but is nonetheless significant. (Economic sanctions are analyzed at Tab 11.)

EB and NSA believe that implementation now would severely reduce U.S. business opportunities in Iraq, invite Iraq to retaliate by withholding payment on large outstanding loans, and initiate a downward spiral in relations that would be difficult, if not impossible, to reverse in the near to medium term.

Specifically, EB notes that since the short term credits are used to finance purchases from the U.S., cancellation of this program would hurt U.S. business. Moreover, it is likely that similar credit arrangements could be made with U.S. competitors, thereby greatly reducing the impact of the loan cancellation on Iraq. EB's proposal for a multilateral ban on all products used in Iraq's petroleum sector would, however, have the effect of blocking many Ex-Im sales.

Option 5: Suspend Transfer of Commodity Credit Corporation Credits

Should Iraq continue its use of CW, or refuse to give assurances against renewed use of these weapons, the U.S. could suspend the extension of credit facilities from Department of Agriculture programs, especially those administered by the Commodity Credit Corporation (CCC). Legislation now being considered on the Hill would do just this.

All concerned Bureaus believe that curtailing CCC credits would be counterproductive at this time. A ban on credit guarantees would have the practical effect of stopping U.S. food exports to Iraq. Owing to Iraq's war indebtedness, provision of CCC credits has allowed Iraq to purchase \$3.2 billion in agricultural commodities from the U.S., about \$1 billion this year alone. (Iraq is repaying on schedule; but we

- 11 -

are exposed in the amount of \$1.5 billion, the total principal outstanding. Iraqi retaliation is therefore a factor to be considered.) Cutting off credit guarantees would halt the program and thus the flow of food, which would create the appearance that we have focussed our sanctions on Iraqi civilians rather than the regime.

Recommendations:

That you approve Option One, intensified public diplomacy (favored by all Bureaus).

Approve _____ Disapprove _____

That you approve Option Two, sending a special envoy to Baghdad to secure assurances on the use of CW and establishing a unilateral freeze on chemical precursors and military exports (favored by all Bureaus).

Approve _____ Disapprove _____

Additionally, as a variation of this option, impose a unilateral ban on exports of chemicals, chemical processing equipment, and laboratory instrumentation. (favored by all Bureaus except EB).

Approve _____ Disapprove _____

That you approve Option Three, working through the UN (favored by all Bureaus).

Approve _____ Disapprove _____

That you approve Option Four, blocking transfer of Ex-Im Bank credits pending assurances regarding CW use by Iraq (favored by PM, IO, EUR, S/CT, HA, S/P; opposed by EB and NEA).

Approve _____ Disapprove _____

That you approve Option Five, and do not block CCC credits to Iraq (favored by all Bureaus).

Approve _____ Disapprove _____

Attachments:

1. Overview of CW Use by Iraq and Countries
2. Overview of the Kurdish Insurgency
3. List of Bilateral and Multilateral Options
4. Overview of U.S.-Iraqi Relations
5. Senate-passed Sanctions Resolution
6. International Law Implications of Iraqi CW Use
7. Draft Public Statements
8. Potential for European Cooperation
9. UN Options
10. Multilateral Forums Concerned with CW
11. Analysis of Economic Sanctions

DEPARTMENT OF STATE		REVISION REQUEST	
() PLEASE	() DECLASSIFY	IS/PC/CDR	Date: <u>7/4/72</u>
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		Staff Assistant	<u>NEA</u>
TO:			
FROM:	S/S-S Team A		
SUBJECT:	Revision of Document <u>8826919</u>		

This is to confirm our telephone conversation on 9/16 regarding the attached document.

The document is being returned for the following reasons:

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Return original correspondence and copy of outgoing State cable under cover of a Levitsky-Powell transmittal form.
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Please return this chit and the attached document with your revisions to S/S-S, Team A, Room 7241.

REMARKS: *Returned in accordance with Mr. Armacost's discussions with relevant bureaus.*

DUE DATE:

DATE RET'D TO S/S-S:

J E S T

9/13/88

TE

~~8826919~~

TO: Staff Assistants - PM
 FROM: S/S-S Team A
 SUBJECT: Revision of Document 8826919

This is to confirm our telephone conversation on 9/13 regarding the attached document.

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REMARKS:

DEPARTMENT OF STATE

FF-2 2/25/83

DUE DATE: ASAP today . DATE RET'D TO S/S-S: _____

please

Thanks.



United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D. C.
20250

002029

SEP 22 1968

TO: Melvin E. Sims
General Sales Manager
and Associate Administrator

FROM: (see below)

SUBJECT: GSM-102 for Iraq: New Credits and Reallocations

The accompanying draft press release has been reviewed by the CCC managers/employees listed below and found to be technically correct for its designed purpose: to reallocate \$32.9 million in coverage from existing credit lines and to allocate what appears to the public to be new credit coverage of \$36.5 million so that Iraq can maximize purchases of U.S. agricultural commodities under the FY 1969 GSM-102 program. This release will enable purchases of as much as \$69.4 million beyond the level expected in the absence of such a release.

However, we also note the strong likelihood that Iraq will not make scheduled payments for these purchases if the United States proceeds with economic/political sanctions against Iraq, as is currently being strongly considered by Congress. Until the specifics of this move toward sanctions are better known, we believe that the immediate issuance of this press release would constitute an inordinately high financial risk to the Corporation, with potential for program repercussions from Congressional reaction.

Therefore, the undersigned recommend against issuance of the attached press release at this particular time.

Kerry E. Reynolds
Charles T. Dolegman
Daniel E. Finkel
Mary T. Chavlis
Edgar Whittemore
L. T. McEwen
Richard S. Leary
Frederic G. Phillips

USDA ADJUSTS FISCAL YEAR 1968 GSM-102 EXPORT CREDIT GUARANTEES TO IRAQ

WASHINGTON, Sept. --The U.S. Department of Agriculture (USDA)

002040 authorized an additional \$36.5 million in credit guarantees for sales of U.S. agricultural commodities to Iraq under the Commodity Credit Corporation's (CCC's) Export Credit Guarantee Program (GSM-102) for fiscal year 1968. This amount is comprised of credit previously allocated for direct sales of CCC commodities that has been transferred to GSM-102 and GSM-102 credit ^{6/25/68} guarantees that have been approved but not yet announced.

According to Melvin E. Sims, general sales manager of USDA's Foreign Agricultural Service, in addition to increasing the overall fiscal year 1968 GSM-102 guarantees to Iraq from \$1,005.0 million to \$1,041.5 million, today's action created a \$500,000 line for sales of corn thickeners, and transferred unused balances from all GSM-102 commodity lines for Iraq into the undesignated line.

Hence, this reduced the following commodity lines: barley malt, hops, and/or hop extract by \$1.2 million to \$800,000; frozen beef (including frozen beef and lamb variety meats) by \$2.7 million to \$1.3 million; blended cotton/wool yarn by \$1.0 million to zero; concentrates (fruit juice and/or soft drink) by \$5.8 million to \$8.2 million; feedgrains by \$2.4 million to approximately \$113.6 million; hides and/or skins by \$2.9 million to \$2.1 million; infant milk formula by \$200,000 to \$4.8 million; planting seeds by \$100,000 to \$12.4 million; protein concentrates of animal or vegetable origin by \$800,000 to \$48.2 million; protein meals (cottonseed, soybean, meat and/or bone, sunflowerseed, and linseed) by \$1.6 million to \$85.4 million; natural calf rennet by \$1.0 million to zero; wood cants by \$100,000 to \$2.9 million; wood pulp by \$800,000 to \$46.2 million; and yeast by \$1.0 million to zero. This action increased the undesignated line by \$57.6 million.

The undesignated amount is available for distribution among those commodity-specific lines which become fully utilized, in accordance with the procedures outlined in the Aug. 26, 1987 announcement (437-87). Allocation of undesignated amounts to commodity-specific lines has resulted in the figures cited above as being "approximate." 002041

To be eligible for up to one-year coverage for plywood and three-year coverage for all other commodities (including corn thickeners), all sales must be registered by Sept. 30, 1988. All exports must be completed by Dec. 31, 1988, except exports of planting seed and vegetable oil which must be completed by Jan. 1 and Mar. 31, 1989, respectively. Terms of coverage previously announced for other commodities remain unchanged by this action.

Exporters must apply to CCC for coverage before exports are completed and written applications shall include payment of a guarantee fee. The guarantor is the Rafidain Bank.

CCC will provide GSM-102 coverage on credit extended for freight costs incurred in conjunction with U.S. export credit sales to Iraq where such costs are in accordance with "port value" as defined under the program regulations.

Sims emphasized neither freight nor insurance costs are eligible for guarantee coverage where sales are made on "free-on-board" (f.o.b.) or "free alongside" (f.a.s.) vessel basis.

U.S. exporters registering for credit guarantees must report the actual export period to CCC as provided in their credit sale. They should not simply use the final export date listed under announcements authorizing the credit guarantees.

The guarantee rates include a charge to provide for a yearly interest rate coverage of up to 4.5 percent on the guaranteed value. Exporters may apply for a guaranteed value up to a maximum of 98 percent of the port value.

002042

Based on repayment of principal, plus accrued interest at the end of the financing period, the fee rate is 15.3 cents per \$100 for six months.

Based on equal semiannual repayments of principal, plus accrued interest, the fee rate is 23.0 cents per \$100 for one year, 30.7 cents per \$100 for 18 months, 38.6 cents per \$100 for two years, 46.8 cents per \$100 for 30 months, and 55.6 cents per \$100 for three years.

Based on repayment of principal, plus accrued interest, at the end of the financing period, the fee rate is 31.9 cents per \$100 for one year. Based on equal annual repayments of principal, plus accrued interest, the fee rate is 48.5 cents per \$100 for two years and 67.0 cents per \$100 for three years.

All other terms and conditions previously announced remain the same.

For further information, call (202) 447-3224.

For 24-hour information on Export Credit Activities, call (202) 472-1621.

PROPOSED AGENDA FOR THE UNITED STATES--IRAQI CREDIT CONSULTATION**Sunday October 30, 1968****Morning****Welcome and Opening Remarks
- Iraq Delegation Leader****Response - U.S. Delegation Leader****World Supply and Demand
- John Reddington****Anticipated Needs - Iraq****Comments - Cooperator Representatives****Afternoon****Lunch****Negotiating Session
(Government Officials only)****Monday October 31, 1968****Morning****Continued Negotiations****Afternoon****Lunch****Signing of Agreed Minutes**

U.S. DELEGATION

000826

Chief Delegate

Mr. Melvin E. Sims
General Sales Manager and
Associate Administrator

Alternative Chief Delegate

Mr. Christopher E. Goldthwait
Assistant General Sales Manager and
Assistant Administrator

Delegates

Mr. Larry Panasuk
Agricultural Trade Officer
American Embassy, Baghdad

Mr. John J. Raddington
Deputy Assistant Administrator
Commodity & Marketing Programs

Mr. Lawrence E. McElvain
Director
CCC Operations Division
Export Credits

Mr. David E. Kunkel
Manager, Asia and Middle East Area
Program Development Division
Export Credits

PROBABLE IRAQI DELEGATION ^{1/}

000627

Chief Delegate	Mr. Farouk Daoud Selman Al-Obaidi *
	Director General
	Foreign Economic Relations Department
	Ministry of Trade
Alternate Chief Delegate	Mr. Valid Younis
	Director of Advanced Countries
	Foreign Economic Relations Department
	Ministry of Trade
Delegates	★ Mr. Raja Hussein Ali *
	Director General
	Economic Section
	Ministry of Industry
	Mrs. Amal Aziz Issa *
	Commercial Counselor
	State Company for Foodstuffs Trading
	Ministry of Trade
	Mr. Zuhair Abdul Rahman Daoud *
	Director General
	State Company for Grain Trading
	Ministry of Trade
	Mr. Mohamed Khayri Mohamed *
	Director General
	State Company for Agricultural Supply
	Ministry of Agriculture
	Mr. Yousef M. Abdul Rahman *
	Commercial Counselor
	Embassy of the Republic of Iraq
	Mr. Edmon Shaker
	Rafidain Bank
	★ Mr. Saadth Hussein Wahar *
	Director General
	Contracts and Loans Department
	Central Bank of Iraq

1/ Proposed delegation list from cancelled consultations.

* Attended the fiscal year 1968 consultations.

★ *Commercial Delegation* *21. 10. 68*

119

1989

CONFIDENTIAL**EXPORT-IMPORT BANK OF THE UNITED STATES
COUNTRY RISK ANALYSIS DIVISION
January 23, 1989****Alert Report - Iraqi Payments Situation Deteriorates**

Iraq's payments situation has further deteriorated, according to recent reports from Embassy Baghdad, the CIA, and others.

o ECGD, once Iraq's paramount "favored creditor", suspended cover in December after 2 months of significant arrears. So far, the suspension has not resulted in payments by Baghdad.

o The French Finance Ministry has been approached to reschedule interest payments on already twice rescheduled debts. COFACE is near the point of saying "enough is enough", and going off cover even for short term credit.

o Other creditors -- EFIC of Australia (previously a favored creditor), EDC, HERMES, OeKB of Austria, and Japan's Marubeni, Mitsubishi, and Sumitomo trading houses -- also report significant new arrears.

o Eximbank insured payments are current, after technical arrears last fall. Payments due CCC are also current, after a more recent arrearage (which brought a short suspension of CCC cover). No doubt, the Iraqis hope that Eximbank will approve a large medium-term program in early 1989 and do not want to spoil the atmosphere, even through technical arrearages.

o With export credit agencies off cover for medium-term credit, Iraq has approached commercial and investment banks. Banks are considering credits secured by Iraqi oil export receipts placed in overseas escrow accounts. The banks are aware of Iraq's severe payments problems vis-a-vis official creditors, and will seek legal mechanisms to ensure they become favored creditors.

o Iraq's payments problems -- related to its low, uncertain oil revenues -- are likely to continue. In the heady days following the cease-fire, Iraq was convinced that oil prices would immediately rise to \$18 per barrel, and made plans for exports of 4 million barrels per day. Since then, oil prices plunged to \$11-12 per barrel, forcing Baghdad to come to terms with OPEC and accept a quota of 2.6 million barrels per day. Plans to rebuild the destroyed Gulf oil terminals -- a prerequisite to significantly higher oil output -- have been suspended.

CONFIDENTIAL

**Classified by Thomas A. Forbord
Under Executive Order 12356
Declassified: 01/23/93**

cc: Bohn, Ryan, Rodriguez, Fireman, Houseworth, Sharpe, Pilzer, Charamella, Echeverria, Tinsley, Files

COUNTRY REVIEW



PREPARED BY

[REDACTED]

COUNTRY RISK ANALYSIS DIVISION
EXPORT-IMPORT BANK OF THE U.S.
APRIL 24, 1989

CREDITWORTHINESS REVIEW OF IRAQ

April 24, 1989

Introduction

With the resumption of full U.S.-Iraq diplomatic relations in November 1984, Exim provided case-by-case short-term cover. In late 1985, Iraq became delinquent, interrupting discussion on a \$50 million medium-term protocol. In March, 1986, because of claims, Exim went off-cover. Delinquencies rose to \$5 million (of \$7.5 million exposure) by late-1986, before Iraq renewed payments. Iraq became current again in April, 1987.

In July, 1987, Eximbank reopened for short-term FCIA coverage, up to a \$200 million revolving ceiling. This ceiling has now been reached. Payment experience amounts to about \$20 million, subject to a few, relatively insignificant delinquencies, none so far resulting in claims.

With increasing frequency, Iraqi officials have been requesting substantial amounts of medium-term cover from Exim. In late 1988, the Board deferred consideration of this request because of delinquencies on the first two LCs (issued on sight terms). Subsequent Board consideration was suspended due to the U.S. government's concerns over Iraq's use of chemical weapons. Over the last few weeks, the National Security Council has been reviewing U.S. policy toward Iraq and other countries in the Middle East.

This report provides assessments of Iraq's balance of payments, the economic and political factors underlying balance of payments developments, the impact of Iraq's oil policies on external creditworthiness, Iraq's relations with foreign creditors, and the Iraqi government's strategy vis-a-vis Exim.

Basic Data (1988):

Size - Twice Idaho
Population - 17.6 mill.
GDP - \$40 billion
Per Capita GDP - \$2,300
Major Export - Crude Oil
External Debt - \$27 bill.
owed Western creditors
Debt/GDP - 65%
Debt Svc Ratio - 67%

Balance of Payments Outlook Still Bleak After Cease-Fire

Iraq's balance of payments picture remains bleak. All the familiar sources of Iraq's financial troubles still linger:

- A hard-currency debt larger than that of Ecuador, Yugoslavia, Algeria, or Nigeria. Because of the Iraqi government's strategy of securing medium-term credit and re-schedulings, debt service will continue to grow at a faster pace than income, preventing debt servicing.

- Oil revenues have not dramatically increased since the early war years, in spite of much higher output levels. While Iraq intends to bring additional production on-stream in early 1990, oil market dynamics and OPEC politics suggest, at best, only moderate growth in oil income.
- Hard-currency military spending of an estimated \$5 billion per year has remain unchanged. Iraq is expanding its purchases of foreign military equipment and technical assistance in order to beef up its forces for possible future combat.
- Civilian imports of consumption and investment goods were permitted to increase substantially in 1988, an easing of wartime austerity. Rising expectations will force still greater imports.
- Loans and grants to Iraq have declined. Saudi Arabia and Kuwait, as part of the new OPEC accord, have cut off their sales of Neutral Zone oil on Iraq's behalf. These sales provided Iraq's largest single source of external credit. Soviet aid, and export credit from Jordan, Turkey, and Western governments remains depressed. No export credit agency except ECGD is offering substantial amounts of medium-term cover. All the others are wary about additional debt reschedulings.

Because of the above factors, increases in Iraq's debt burden are not expected to end, and the volume of debt subject to arrears and reschedulings is expected to rise over the near term, from some \$3-4 billion per year to \$8 billion per year.

Baghdad's Wartime Policies Persist

Underlying this bleak balance of payments picture is a continuance of the Iraqi government's costly military, political, economic, and financial policies.

Military spending remains a key priority. The Iraq-Iran peace talks remain bogged down. Iraq has refused to implement prisoner exchanges or accept UN confidence-building measures until the Shatt al-Arab waterway--which it claims--is cleared. Iraq has reinforced its positions within the Iranian enclaves it holds. Afraid of new attacks--and Iranian rearmament--Iraq has not demobilized its forces, and is undertaking new military equipment purchases.

The costs of other military-related ventures are also rising. Iraq is continuing development of long-range missiles and rebuilding its nuclear energy research program. Iraq has dispatched tanks and other arms to the Phalangist militia in Lebanon. Iraq is building secure camps to resettle Kurdish refugees. To create an atmosphere of renewed prosperity after a half-decade of wartime austerity, Iraq has boosted imports of consumption goods. For example, Iraq has imported tens of thousands of mid-sized cars as gifts for loyal soldiers and party bureaucrats.

Iraqi officials have also focused attention on restarting their stalled economic development agenda. They seek to build power plants, automobile plants, oil refineries, petrochemical complexes, and other manufacturing facilities. Even before the cease-fire, the government had piqued the interest of exporters by promising a radical transformation in Iraq's economic and financial policies after the war.

Under these new policies, Iraq was to divert military spending to civilian investment. With expanded revenues from reopened Gulf terminals, Iraq would finance ambitious development projects; reward allies and wartime financial backers with new contracts, export markets, and foreign investment opportunities; and begin to repay wartime debts.

However, with oil revenues growing only modestly, military spending requirements undiminished since the cease-fire, and foreign exchange expenditure for consumer goods increasing dramatically, Iraq has not been able to undertake civilian investment projects using its own resources. Thus, Iraq has linked awards for new contracts to the provision of 100% foreign financing.

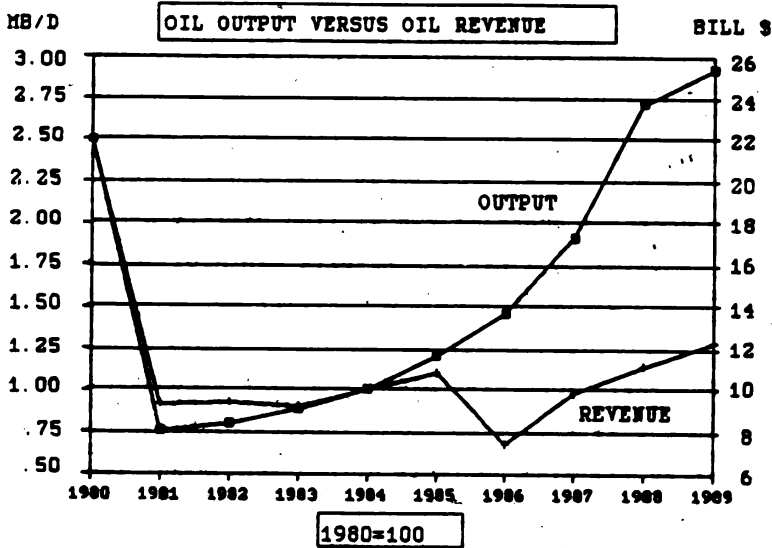
Moreover, Iraq has once again rescheduled--or continues to leave unpaid--most payments owed to foreign creditors. Only those creditors providing larger amounts of new money are being repaid. Iraq is refusing payments even to those creditors who provided the greatest levels of financial support during the war--unless they now offer additional money.

Greater Oil Production is No Panacea

Even after seven years of messy debt reschedulings, Iraqi officials insist that their 100 billion barrels in oil reserves--arguably the world's second largest--are capable of underwriting continued military expenditure, higher consumption, a new construction boom, and debt repayments. However, Iraq's oil is unlikely to provide any better guarantee of improved debt repay-

ment ability in the foreseeable future than it has in the past.¹

During the early war years, the Iraqi government's greatest non-military challenge was the creation of new oil export capacity. In the first years of the war, with the destruction of its Fao oil terminal and the closure of its Syrian pipeline, Iraq was left with one 700,000 barrel per day pipe through Turkey. Now, several new pipelines later, the government continues to focus on additional export capacity as the answer to sagging revenues--while neglecting the revenue consequences of its higher production on OPEC unity and global oil prices.



Higher Output Does Not Bring Proportionately Higher Revenues

¹ Fluctuations in oil revenues, which amount to well over 90% of foreign exchange earnings, will continue to have a greater impact on the balance of payments than any earnings generated by proposed non-oil industries.

By early 1990, Iraq will complete a second 500,000 barrel per day pipeline through Saudi Arabia, and install temporary 1 million barrel-per-day oil export facilities at Fao, at the head of the Gulf. These facilities will provide Iraq at least a 50% increase in oil export capacity, from 2.6 to 4.1 million barrels per day. However, oil market dynamics will likely prevent Iraq from realizing any comparable increase in revenues.

Iraq has twice before been mistaken in its forecasts of oil revenues. In the early 1980s, when Iraq was building its first Saudi and expanding the first Turkish line, officials came to expect a doubling of oil export revenues by 1986. However, the government's forecasts were dashed by the 1986 oil price collapse, which completely offset the revenue impact of the additional production. When the second Turkish line came on-stream in late 1987, prices fell, from around \$18 per barrel to around \$15 per barrel. The new Iraqi exports triggered competing and retaliatory output increases by other quota-bound OPEC producers. Again, much of the expected revenue impact of greater output was lost to lower prices.

The government's desire to expand export volumes threatens production discipline among large OPEC producers, the source of oil price stability. In the November, 1988, OPEC accord, Iraq agreed to accept a quota of 2.6 million barrels per day. This move cost Iraq nothing at the time, as Iraqi export capacity was then--and remains--2.6 million barrels per day. However, Iraq--and other key OPEC players--will face a new round of production decisions when Iraq's new export facilities come on-stream.

Should Iraq flout OPEC, and boost export volumes to 4 million barrels per day, other OPEC producers will also increase output: first, Kuwait and the United Arab Emirates (who are dissatisfied with their quotas and already, in fact, violating them), and then Saudi Arabia (which has given up being a swing producer, and will seek--even at the risk of lower prices--to defend its market share). If Iraq and others export at an all-out pace, prices will plunge to near \$10, once again completely offsetting the revenue impact resulting from higher oil output.

A more cooperative approach is possible. Iraqi may yet agree to a phased increase in output, around 200,000 barrels per year, perhaps coordinated with similar increases by Saudi Arabia, Kuwait and the U.A.E. In the context of still modest increases in global demand for OPEC oil--gradual increases in Gulf oil output will restrain nominal world oil price increases to about \$1 per barrel per year (zero in real terms) until 1992, with more rapid growth thereafter. Under such an optimal scenario, Iraq's oil revenues would increase by at most \$1 billion per year.

With additional oil revenues of only about \$1 billion per year, Iraq will not be able to compensate for the recent loss of Saudi and Kuwaiti oil aid, procure desired military hardware, boost civilian consumption and investment levels, and yet still restore debt service to the degree desired by creditors.

Iraq's Debt Strategy Unchanged

From the start of the Gulf War, the inadequacy and unreliability of oil revenues have forced Iraq to rely on massive external financial assistance, in the form of grants, loans, and re-schedulings. Iraq's hard-currency external debt (excluding "soft loans" from Saudi Arabia, Kuwait, and the Soviet Union) is today greater than the external debts of Algeria, Chile, Nigeria, or Yugoslavia.

The Iraqi government does not pursue normal principles of debtor-creditor relations (timely repayment as a natural state of affairs, financial disclosure, public multilateral rescheduling negotiations, and equal treatment of creditors). Iraq conducts new money and rescheduling negotiations on a confidential bilateral basis, offering promises of favored creditor status at first, but later making repayments on existing debt contingent upon new money commitments.

Iraq's preference for bilateralism and creditor discrimination has pre-war roots. The government has long conducted the bulk of its foreign trade under bilateral arrangements, cleared either in oil deliveries or hard-currency payments. When it ran out of cash in 1982, Baghdad extended its bilateral trading philosophy to relations with creditors.

Iraq employs default and the threat of default to obtain the best possible rescheduling and new money deals from its creditors. Oil deliveries are viewed as an acceptable (though not always optimal) means of partial repayment, and cash repayment as leverage with which to secure still greater levels of financial assistance from heavily exposed creditors.

The most extreme example involves Saudi Arabia and Kuwait, which have provided \$25 billion since 1983 (from Neutral Zone oil sold, until last year, on Iraq's behalf). Iraq is not servicing these loans, yet seeks even additional commitments. A non-aggression treaty with Saudi Arabia obligates Saudi financing for Iraq's nuclear research program. A water-supply deal with Kuwait requires 100% Kuwaiti financing.

Iraq is also pressing the Soviet Union for an increase in its estimated \$10-11 billion exposure. While the Soviets are seeking cash payments for new military hardware, Iraq is seeking deferred payment in oil shipments. A Soviet debt negotiator in Baghdad told the U.S. Embassy that Moscow considers Iraq's Soviet debt "an intractable problem."

Credit lines provided by the central banks of Turkey and Jordan, repaid both in oil and cash, have also become unmanageable. Iraq flooded the central banks with billions of dollars worth of letters of credit. Iraq left the LCs unpaid on their due dates, forcing the central banks to shut down the lines. Iraq is using limited cash payments and oil shipments--and the influence of would-be Turkish and Jordanian exporters--to obtain still greater amounts of credit from Turkey and Jordan.

Iraq appears to be employing the same debt strategy vis-a-vis export credit agencies. It currently authorizes timely repayments to only three government credit agencies. These agencies appear to Iraq to be the only agencies likely to keep increasing their exposure.

- U.K. Export Credit Guarantee Department. ECGD is offering \$600 million in 1989, against \$448 million in payments due. Iraq did allow a build-up in arrears at end-1988, after ECGD turned down a request for still-greater assistance.
- U.S. Commodity Credit Corporation. CCC in 1989 is offering \$1.1 billion (\$100 million on 7-year terms) against a smaller level of payments due. With exposure at \$1.8 billion, CCC credit to Iraq has reached agency limits. Nevertheless, Iraqi officials visited CCC in April, requesting additional credit.
- U.S. Eximbank. Iraqi officials are well aware that medium-term credit may be considered by Exim and will continue to service short-term credits.

Until 1988, Australia's EFIC was told by Iraqis that it too was a "favored creditor." However, the start of large repayment obligations--unmatched by larger credit offers--led to arrears and a \$43 million rescheduling.

All other export credit agencies have experienced annual debt reschedulings of increasing scope and size. For those with the largest exposures, the reschedulings have occurred every year since 1983. They have come to encompass increasingly large

volumes of maturities, including previously rescheduled (often twice) maturities as well payments falling due on post-1983 loans. For agencies which have refused recent reschedulings on Iraq's terms (COFACE of France, SACE of Italy, and EID/MITI of Japan), large arrears and claims have built up.

Hermes of West Germany has sought to use the Iraqi tactics in reverse. Hermes has linked one \$28 million MT credit tranche, and \$175 million in ST credit, to repayment of \$28 million of MT arrears and \$100 million of ST arrears. Since Iraq has not yet paid these arrearages, it has not received the linked credits. To facilitate rescheduling negotiations in 1988, Hermes also offered another \$56 million in combined-term credit, half for medical supplies and half for capital goods.

Other export credit agencies also explicitly link limited amounts of cover, mostly short-term, to partial Iraqi debt payments; but they are otherwise completely off cover. COFACE of France and SACE of Italy have each linked \$50 million in renewed ST credit to repayment of a like amount of arrears. EID/MITI of Japan has linked release of MT credits to the clearance of arrears. MITI is operating a revolving ST credit program, operating under an \$800 million ceiling, whereby payments on delinquent LCs (which make up the majority of the \$800 million) free up room for new ST credit.² Austria, Spain, Finland, and Sweden have also linked ST credit to payment of arrears.

In late 1988, European and Japanese governments agreed "terms of reference" for the 1989 and 1990 round of bilateral reschedulings with Iraq. While the terms will serve to equalize rescheduling terms (3 years grace and 3 repayment), they will not guarantee equal treatment: countries providing new loans may still be able to secure better debt repayment. Furthermore, the terms of reference re-affirm the upside-down nature of Baghdad's relations with creditors: older debts are to be favored over newer debts.³

² While the Japanese government is not providing medium-term cover, private trading houses are. Marubeni, Mistubishi, and Sumitomo lift Iraqi (previously Saudi-Kuwaiti) crude to pay for contracts in Iraq.

³ In 1989 reschedulings, payments on debts originating in 1983 (which have already been twice rescheduled) are to be dropped from the rescheduling. Likewise, in 1990, payments on 1984 debts are to be dropped. Normal Paris Club rules provide for full repayment on loans contracted after, not before, a particular cut-off date. Agencies providing new credit, if rescheduled, face a six-year wait for payments to begin.

Iraq has repeatedly rejected a formal Paris Club multilateral rescheduling. Officials realize that a series of normal Paris Clubs would ease Iraq's overall financial position by stretching out debt repayments over a long time frame. However, they know that the Paris Club would undercut its entire strategy of using payments on existing debt to extort new money. Medium-term loans and rescheduling "bunch" debt service payments, guaranteeing annual rounds of new money protocols and debt negotiations. A comprehensive retiming of the debt burden would reduce the pressure to provide limited amounts of new money on an ongoing basis. Annual bilateral negotiations may be agonizing for creditors, but for Iraq they have proven to be a credible instrument for obtaining new money commitments.

Iraqi officials hope that their debt strategy will prove more successful than in the last year, when creditors started to link new money commitments to equal amounts of debt repayments. If they can convince several export credit agencies that the long-run payments outlook is now sufficiently favorable to allow unlinked medium-term credit--and induce others to match these agencies' terms for specific projects--they may be able to secure a great deal more project-related finance than at present.

However, increased lending would lead to a continued pyramiding of Iraq's foreign debt, unlikely to be matched by faster growth in the oil-based foreign exchange earnings. Iraq's return to normal debt servicing, within any reasonable time frame, would become still less probable.

Iraq's Objective and Strategy vis-a-vis Exim

Iraq's objective with regard to Eximbank is to establish a protocol arrangement, starting with an annual \$250-300 million program, and providing progressively larger annual programs of medium-term credit.

Iraq would use Exim's credit guarantees to support a wide range of infrastructural and industrial projects. The larger industrial projects sought by Iraq may each have an Exim-guaranteed portion up to \$100-200 million. These projects are unlikely to influence Iraq's balance of payments to the extent oil does (oil revenues may swing several billion dollars up or down in a single year, depending on output policies). Consequently, the government will be forced to rely on oil income to ensure foreign exchange availability for payments on project-related debt.

From the moment Exim announced short-term cover, and continuing until today, the Iraqis have approached Exim for substantial amounts of project finance. Iraqi officials have called on Exim many times, urged interested exporters to call on the bank, and have invited Exim's chairman to visit Baghdad. In recent meetings, Iraqi officials have exhibited impatience with Exim's reluctance to provide such credit.

Iraq is likely to continue to pay on its letters of credit as long as medium-term credit remains on Exim's agenda. The Iraqis are aware that two delinquencies prompted the Board to table the issue of medium-term credit last fall. Consequently, Iraqi financial officials are now under orders to maintain payments on the short-term program.

Conclusion

If Eximbank is willing to commit to consecutively larger credit programs year after year, Iraq will likely service these credits on a timely basis. However, even this prognosis is subject to significant risks:

- **Saddam's overthrow.** Rumors of coup attempts notwithstanding, Saddam appears entrenched. As Iraqi policies are fashioned in the palace, a successful coup will likely bring dramatic changes in debt strategy.
- **Renewed war.** With both Iran and Iraq eschewing demobilization, the Gulf war may flare up again. In addition, Iraq may become directly entangled with Syria (with which it is currently fighting a proxy conflict in Lebanon) or even with Saudi Arabia and Kuwait (over newly simmering territorial claims). Any serious military conflicts may result in unintentional defaults.
- **Continued fluctuations in U.S.-Iraqi relations.** Iraq may hold Exim exposure hostage to political considerations, namely U.S. government policy towards Iraq's human rights record; its nuclear, chemical, and missile development; and its role in regional affairs.

APPENDIX 1: CURRENT COVER POLICIES OF MAJOR EXPORT CREDIT AGENCIES

COUNTRY-AGENCY END-68 EXPOSURE	ILCs	CURRENT COVER POLICY Loan Guarantees
Germany-Hermes \$2.21 bill. --\$19 mill. ST		1968 Annual Protocol (\$56 Mill. NT & ST) --Reduced from \$150 mill. in 1967-- Facility 1: Cap Goods \$28 mill. annual limit \$5.6 mill. transaction limit Facility 2: Medical Supplies \$28 mill. annual limit \$5.6 mill. transaction limit
France-COFACE \$1.63 bill. --991 mill. ST	SUSPENDED (see App. 2) Was ILCs to 2 years.	OFF COVER
Japan-EID/NTI \$1.42 bill. --\$810 mill. ST (incl. arrears)	360 days; CASE-BY-CASE \$5 mill. trans. limit 70% cover	OFF COVER (see App. 2)
Italy-SACE \$1.61 bill. --\$41 mill. ST	CONDITIONAL Up to \$50 mill. (see Appendix 2)	OFF COVER since November 1966
U.K.-ECGD \$1.39 bill. --\$67 mill. ST	360 Day Cover Exposure limit	1969 Annual Protocol (ON EXCHANGER ACCT): \$600 mill. guarantees (see Appendix 2)
Austria-OEKB \$779 mill. --99% mill. ST	SUSPENDED (see App. 2) Was 360-day cover 70% cover 6 month claim wait period	OFF COVER
Spain-CECE \$253 mill. --90 ST	SUSPENDED (see App. 2) Was 360 day cover	OFF COVER
Australia-EPIC \$209.4 mill. --\$1.9 mill. ST	(ON GOV'T ACCOUNT) Wheat--2 year term Exposure Ltd; 70% cover 100% surch, 9-mo. claim wait	OFF COVER
Finland-VTL \$132.9 mill.	OFF COVER	OFF COVER
Sweden-SEI \$126 mill. --\$11.2 mill. ST	2 years; exposure limit 200% surcharge 8 month claim wait period	OFF COVER

Note: CND-Belgium & EDC-Canada are off cover, with no exposure.

ICN-Neth. is off cover, with \$31 mill. exposure.

EIBK-Korea is off cover NT, case-by-case ST, \$13 mill. exposure.

APPENDIX 2: MAJOR EXPORT CREDIT AGENCY BILATERAL ARRANGEMENTS; ARREARS & CLAIMS, December 1988

COUNTRY-AGENCY AMT DUE IN 1989	BILATERAL FINANCIAL ARRANGEMENTS (Reschedulings & Negotiated New Money)	RESCHEDULING TERMS	ARREARS (Post-Resch.)	CLAIMS (Unresch.)
Germany-Hermes \$1.18 bill. due in 89	Feb 89: Reached. \$340 mill. due in 89. Iraq will deliver oil to settle \$400 mill. in twice-resch. pmts due. Nov 88: Reached. ST debt. Offered \$175 mill. new ST if Iraq pays \$100 mill. ST May 88: Reached. \$700 mill. due in 88. Offered 3rd \$28 mill. facility if repeys \$28 mill. NT (UNPAID)	Grace: 2.5 Yrs Repeym: 2 Yrs on 89 Resch.	\$36.6 mill.	\$17.6 mill.
France-COFACE \$712 mill. due in 89	Feb 89 meeting ended w/o agreement. March 88: reached. \$175 mill. due 88, offered \$30 mill. in ST cover if Iraq pays ST arrears (SUSPENDED 2/89)	Iraq seeks: 100% of 89 pmts Grace: 4 Yrs Repeym: 4 Yrs	\$90.6 mill.	\$546.6 mill.
Japan-EIO/MITI \$1.1 bill. due in 89	No resch. agreements since 1987: MITI will not release old NT credits & provide new guarantees until Iraq clears arrears.	1987 Reach: Grace: 3 Yrs Repeym: 3 Yrs	Unreported but large	Unreported but large
Italy-SACE \$941 mill. due in 89	Italy refuses Iraq's terms for resched., offered \$58 mill.+ in new ST cover when Iraq pays overdue ST ILGs.	Iraq seeks: Grace: 4 Yrs Repeym: 4 Yrs	\$108.9 mill.	\$167.2 mill.
U.K.-ECGD \$448 mill. due in 89	October 88: Agreed to double ann. limit to \$600 mill. in 1989 if Iraq avoids arrears and resch. of existing debt. Protocol delayed by end-88 arrears.	New money Repeym: 5 Yrs	\$65.4 mill.	\$65.1 mill.
Austria-OEKB \$254 mill. due in 89	Mar 89: Reached. \$174 mill. due in 89. If Iraq pays \$80 mill. in twice-resch. pmts. due in 89., Austria will provide equal amount of ST cover (ST SUSP. 2/89).	Grace: 3 Yrs Repeym: 3.5 Yrs	\$26.4 mill.	\$21.6 mill.
Spain-CESCE \$38 mill. due in 89	Reached. \$38 mill. due in 89. Offered to lift ST suspension if Iraq pays \$22.7 mill. in overdue & 1989 interest.	Grace: 3 Yrs Repeym: 3 Yrs	None	\$87.0 mill.
Australia-EPIC \$140 mill. due in 89	1988: Rescheduled \$43 million. Annual gov't-to-gov't accords on new money.		None	\$47.9 mill.
Finland-VTL \$56 mill. due	Negotiating arrears; may offer ST credit to obtain repayment.		None	\$23.1 mill.
Sweden-EKRI \$54 mill. due in 89	Offering 2-year cover to avoid new reschedulings.		None	\$47.7 mill.

Note: GND-Belgium & NCH-Neth. rescheduled 1988 maturities, with 3-years grace followed by 3-years repayment. Reschedulings of arrears and 89 maturities are expected.



United States Department of State

Washington, D. C. 20520 *EM*ACTION MEMORANDUM *2/46*
S/SMAY 23 1989 *6/9*

TO : The Secretary
 THROUGH: E - Amb. McCormack *2002-1*
 FROM : Eugene J. McAllister *2/1*

5711672
MAY 23 1989

SUBJECT: Request to Expand GSM-102 Program

ISSUE

Whether to sign a letter to Clayton Yeutter requesting that he increase the limit on the GSM-102 Export Credit Guarantee Program for U.S. agricultural exports from \$5 billion to \$6 billion.

BACKGROUND

- o GSM 102 allows USDA's Commodity Credit Corporation (CCC) to guarantee 98% of commercial bank loans of up to three years to finance the export of U.S. agricultural products.
- o The Food Security Act of 1985 states that for fiscal years 1986-90, the CCC shall make available not less than \$5 billion in GSM 102 credit guarantees. However, USDA and OMB interpret this as a \$5 billion ceiling.
- o In prior years, GSM 102 has not been fully utilized. This year, because of increasing familiarity with the program and the high cost of wheat (which increased in price by 35% since last year), the full \$5 billion is committed and the United States has received requests for an additional \$1.5 billion.
- o Countries requesting additional GSM include Mexico, \$500 million, Egypt, \$250 million, Trinidad and Tobago, \$40 million, Iraq, \$150 million, Algeria, \$100 million. We understand that shortly we will be receiving a high-level request from the government of Venezuela for \$185 million.
- o GSM is a key issue in the Mexican debt rescheduling and may play a crucial role in a successful Paris Club negotiation and smooth implementation of the Brady Plan.

-2-

- o Under Secretary Mulford has expressed to Under Secretary McCormack Treasury's support for additional GSM to accommodate Mexican needs.

RECOMMENDATION

That you sign the attached letter to Secretary Yeutter asking his cooperation in expanding the GSM 102 program by \$1 billion.

Attachment:

IC TO ADDRESSEE
PIES TO:

8911672

OFF

THE SECRETARY OF STATE
WASHINGTON

June 9, 1989

Dear Clayton:

I am writing to ask for your assistance in solving a problem that has consequences for both U.S. foreign policy and agricultural exports. As you know, the GSM-102 program has been very popular this year. We understand that requests have exceeded \$6 billion, but that USDA has set a \$5 billion "cap" on the program. This cap leaves several countries without sufficient coverage for their import needs. The result could be a loss of U.S. export sales and some bad feelings from friendly countries and good customers such as Mexico and Egypt.

GSM-102 is important in other areas as well. For example, it is a key issue in the Mexican debt rescheduling and may play a crucial role in a successful Paris Club negotiation and smooth implementation of the Brady proposals.

The increase in wheat prices has raised the food import bill for many countries. This has added to the pressure on GSM this year. It would make good marketing sense to be able to respond to the price increases with an increase in our credit guarantees in order to maintain good will and credibility as a reliable source of wheat and other agricultural products.

I understand that the Food Security Act of 1985 states that for fiscal years 1986-90, at least \$5 billion in GSM-102 should be made available annually. Since GSM is not a budget item, the program could be expanded with a minimum of red tape. I would appreciate it greatly if you could look into this issue personally and lend your support to a \$1 billion increase in the GSM program.

I look forward to hearing from you.

With warm personal regards,

Sincerely, yours,


James A. Baker, III

The Honorable
Clayton Yeutter,
Secretary of Agriculture

cc: OMB - Mr. Darman

483570

~~Kanket~~ EC/PDI

United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D.C.
20250

M. J. [unclear]
A. 25/90

EX 14 1989

TO: Chris Goldthwait
Assistant Administrator
Export Credits

FROM: John E. Riesz
Assistant Administrator
International Agricultural Statistics

SUBJECT: Iraq--Financial and Economic Situation

IAS has updated the economic profile of Iraq in response to recent changes in its economic situation.

The heavily oil-dependent Iraqi economy felt the full impact of the eight-year war with Iran. Oil revenues declined dramatically, real GDP registered negative growth, inflation remained high, the current account balance turned negative and international reserves fell drastically. However, the recent ceasefire agreement and subsequent increases in oil export revenues should help initiate a turnaround in Iraq's economic situation.

The war with Iran, compounded by the decline in oil prices, forced Iraq to take on extensive overseas borrowing. Total external debt is estimated at \$26 billion. An additional \$40-\$50 billion, considered by Iraq as separate "debts in kind", are owed to Arab Gulf states. Most of the major debts have been rescheduled at least once. Germany has already reached a rescheduling agreement in 1989 and France is reportedly close to signing a \$6 billion rescheduling agreement. Total debt service was an estimated \$5.2 billion in 1988 and projected at \$4.6 billion in 1989.

Two factors are of significant interest to the United States. One is Iraq's attitude of favoring repayment to those offering further credits and ignoring repayments to those unwilling to advance new credits. The second factor is the importance of guaranteed credit arrangements in gaining market share. GSM-102 credit guarantees have annually accounted for over 90 percent of total U.S. agricultural exports to Iraq for the past five years.

Overall, Iraq's economic reconstruction will be extremely slow with priority given to rebuilding the military and repairing oil export facilities. In the short term, Iraq will continue to make bilateral rescheduling agreements with their major non-Arab creditors. The long-term economic outlook is primarily dependent on an increase in oil revenues and Iraq's ability to secure new credits.

Based on this analysis, short-term credit initiatives should be approached with extreme caution. Medium-term and long-term credit initiatives may be more appropriate at this time. This analysis is based on a stable oil market and continuation of the ceasefire with Iran. Any dramatic change in either area would be cause for re-evaluation. This analysis is consistent with that of the EX-IN Bank.

IRAQ—FINANCIAL AND ECONOMIC SITUATIONBACKGROUND:

Iraq is a major oil producing country which borders six countries: Iran, Turkey, Syria, Jordan, Kuwait and Saudi Arabia. The current population is 17.6 million with a relatively high growth rate of 3.5 percent in 1988. The land area is 434,000 sq. km. or slightly larger than twice the size of Idaho. Other than cultivated areas along the Tigris and Euphrates rivers, the country consists mainly of desert plains and arid mountains. At least 40 percent of the population resides in or near the capital city of Baghdad.

Overall, 12 percent of the land is arable; 9 percent is meadows and pastures; 3 percent is forest and woodland, 1 percent is permanent crops and the remaining 75 percent is classified as desert. Oil and natural gas are the dominant natural resources, accounting for over 95 percent of Iraq's export revenue. Other major industries include textiles and shoes. Modest levels of agricultural exports include barley, cotton, wool and palm dates.

QUALITATIVE ANALYSIS:

The heavily oil-dependent Iraqi economy felt the full impact of the eight-year war with Iran. Export terminals were heavily damaged in the early stages of the war as oil export revenues fell from \$26 billion in 1980 to \$10 billion in 1981. Revenues remained at this level throughout the war except in 1986 when the decline in oil prices reduced revenues to \$7 billion. The decline in revenues led to a corresponding deterioration in the current account balance—from a surplus of \$13.8 billion in 1980 to an estimated deficit of \$4 billion in 1988. As a result, Iraq was forced to draw down on their international reserves to continue financing the war effort. Reserves declined from \$39.4 billion in 1980 to \$1.9 billion in 1988. The import coverage ratio declined from 34.9 months to 2.6 months.

Economic growth over this period reflected the significant reduction in oil revenues. Real GDP registered negative growth from 1983 through 1986, ranging from 7.3 percent in 1983 to 9.7 percent in 1985. A modest turnaround of 1.7 percent in 1987 was followed by a significant increase of 9.9 percent in 1988. A high inflation rate has aggravated existing problems since 1983.

The war with Iran, compounded by the decline in oil revenues, forced Iraq to take on extensive overseas borrowing. Total external debt increased from \$7.8 billion in 1984 to \$26 billion in 1988. In addition, an estimated \$40-\$50 billion are owed to Arab Gulf states, but are considered by Iraq as separate "debts in kind". Most of the major debts with western creditor countries have been rescheduled at least once. Further bilateral rescheduling is expected as Iraq continues to avoid multilateral rescheduling negotiations with the Paris Club. Total debt service was estimated at \$5.2 billion in 1988 and projected at \$4.6 billion in 1989.

On the political scene, Saddam Hussein and the Baath party continue to consolidate the power they have held for over 20 years. The Baath party seized control in 1968 after a successful coup d'etat and quickly pronounced the principles of socialism, freedom and a Pan-Arabic community. Saddam Hussein ascended to the presidency in 1979 but had long before been recognized as the effective head of state. Despite a recently discovered assassination plot from within the Iraqi military, Hussein remains in firm control. The two major issues currently facing Hussein are the ceasefire with Iran and economic reconstruction.

EXPORT SITUATION:

Iraq's imports of U.S. agricultural products have dramatically increased in each of the past two years. This increase is directly attributed to the GSM-102 credit guarantee program which has annually accounted for over 90 percent of total U.S. agricultural exports to Iraq since 1984. Overall, agricultural imports from the United States totaled \$726 million in FY 1988, compared with \$519 million in FY 1987 and \$335 million in FY 1986. The bulk of the increase was spread over a diverse group of products including feed and fodder, soybean oilcake and meal, dairy and poultry, corn, cotton and sugar. The two major commodities remain rice and wheat.

The United States market share of total Iraqi agricultural imports reached 27 percent in CY 1987 compared with 20 percent in CY 1986, and 15 percent in CY 1985. In 1987 the United States maintained its market share of rice and wheat, but gained a significant market share for soybean oilcake and meal, dairy and poultry products, corn and sugar.

With its high population growth rate, very limited supply of arable land and huge oil reserves, Iraq remains a major market for U.S. agricultural goods. However, an important factor in gaining market share in Iraq has been the readiness of exporters to offer credit arrangements. Turkey maintained its short-term credit provisions for agricultural and industrial goods in 1987 and became Iraq's largest supplier. Yugoslavia continued to take advantage of substantial government-to-government credit arrangements. These arrangements suggest that the United States must continue its guaranteed credit program in order to maintain or expand its current market share.

FUTURE ABILITY TO PAY:

The overall cost of the war on Iraq was overwhelming in terms of human casualties, military expenditures, and the destruction of physical infrastructure including industrial and export facilities. Iraq's immediate reconstruction costs are estimated at \$7 billion and long-term recovery costs at an additional \$30 billion. As a result, Iraq's economic recovery will be extremely slow with priority given to rebuilding the military and repairing oil export facilities.

In the short term, it is widely expected that Iraq will need to reschedule much of its \$26 billion external debt. Germany has already reached a rescheduling agreement with Iraq in 1989 and France, the largest creditor, is reportedly close to another rescheduling agreement of approximately \$6 billion. Few countries have provided significant amounts of new credit. Britain became a notable exception by recently doubling its credit line to Iraq to \$630 million.

Over the long term, the outlook is somewhat brighter. The ceasefire process with Iran is slowly moving forward, with the two sides agreeing in late March to a new round of peace talks at the United Nations. Another reason for optimism is Iraq's recent increase in oil export revenues plus the 100 billion barrels of proven oil reserves. According to a Reuter's survey, Iraq's oil output reached its OPEC quota of 2.6 million barrels a day in the first quarter of 1989. Oil export revenues in 1989 are expected to exceed \$13 billion, compared with \$11.8 billion in 1988 and a low of \$7.2 billion in 1986. The steady increase in oil revenues may improve Iraq's debt situation, depending on how these increased revenues are allocated.

Based on this analysis, short-term credit initiatives should be approached with extreme caution. Future rescheduling agreements or new credit initiatives with other creditor countries should be closely monitored. Medium-term and long-term credit initiatives may be more appropriate at this time. This analysis is based on a stable oil market over the medium term and the continuation of the ceasefire with Iran. Any significant development in either area would be cause for re-evaluation.

U.S. AGRICULTURAL EXPORTS
 PERIOD: OCT - SEPT CUMULATIVE
 SOURCE: U.S. CENSUS
 DESTINATION: IRAQ

UNITED STATES DEPARTMENT OF AGRICULTURE
 FOREIGN AGRICULTURAL SERVICE
 SEVEN-YEAR EXPORT TRADE REPORT
 D O L L A R V A L U E (THOUSANDS)

	1962	1963	1964	1965	1966	1967	1968
WHEAT	27,631	176,213	153,478	87,707	88,701	86,333	92,269
FLOUR	0	0	0	0	14,364	17,485	3,644
COAR	0	0	38,452	46,579	29,472	37,734	63,710
OTHER COARSE GRAINS	0	17,927	18,446	80,847	0	0	11,903
RICE	93,317	112,871	131,182	130,324	144,409	122,070	137,907
PULSES	0	0	0	0	5,327	10,772	16,391
FEED AND FODDER	0	0	14,787	14,772	5,123	23,971	79,644
OTHER GRAINS AND PRODUCTS	5	22	0	0	0	0	10
SOTHEAN OILCAKE AND MEAL	0	14,042	37,316	26,092	14,442	34,486	80,327
SUNFLOWER SEED OIL	0	0	0	0	9,589	17,108	8,036
OTHER OILS	0	0	0	0	0	12,215	8,694
SUNFLOWER SEED	0	0	0	0	0	0	748
OTHER OILSEEDS AND PRODUCTS	0	0	0	0	0	64	472
COTTON, LINTERS AND RAW SILK WASTE	0	0	0	0	0	13,402	24,264
TOBACCO	1,418	1,478	12,488	30,533	6,907	25,882	22,499
SEEDS	0	0	0	0	0	7,896	9,571
LIVESTOCK	0	0	0	0	0	1,046	4,127
TALLOW AND GREASE	0	0	0	0	0	4,773	18,375
SIDES AND SKINS	0	0	0	0	0	1,590	698
HAIR AND WOOL	0	0	0	0	0	0	190
OTHER LIVESTOCK PRODUCTS	0	0	140	19	9	0	2
POULTRY MEAT	0	0	0	0	0	45,844	17,663
OTHER POULTRY AND PRODUCTS	10,599	0	0	0	0	0	24,095
BUTTER AND MILK FAT	0	0	0	0	2,670	3,160	6,191
CHEESE AND CUND	0	0	0	0	0	1,280	12,710
OTHER DAIRY	0	19	65	33	3,972	13,107	24,308
PROCESSED FRUIT	0	0	0	0	0	0	529
PROCESSED VEGETABLES	10	0	0	0	0	0	0
NETS	0	0	0	0	237	0	92
BEANS	0	0	0	0	14,045	27,295	33,622
BEVERAGE BASES AND FLAVORINGS	0	0	0	0	0	9,018	11,209
OTHER HORTICULTURAL/TROPICAL PRODS	2	0	134	298	103	1,440	578
GRAND TOTAL	134,876	322,577	422,582	381,525	335,108	519,312	726,641

UNITED STATES DEPARTMENT OF AGRICULTURE
 FOREIGN AGRICULTURAL SERVICE
 SEVEN-YEAR EXPORT TRADE REPORT
 DESTINATION: IRAQ

	1962	1963	1964	1965	1966	1967	1968
WHEAT	177,811	1,066,245	1,002,464	509,356	705,243	502,872	797,224
WHEAT	0	0	0	0	91,430	129,485	26,245
OTHER COARSE GRAINS	0	122,159	231,293	384,995	220,000	423,694	615,816
RICE	229,345	286,052	361,373	317,782	433,945	572,745	375,503
PULSES	0	0	0	0	8,327	17,821	30,699
FEED AND FOODER	0	0	28,327	30,946	14,262	56,346	136,831
OTHER GRAINS AND PRODUCTS	1	46	0	0	0	0	17
SUNFLOWER SEED	0	58,998	135,003	154,915	74,439	170,353	310,657
SUNFLOWER OILCAKE AND MEAL	0	0	0	0	17,331	42,440	17,490
SUNFLOWER SEED OIL	0	0	0	0	0	11,795	7,730
OTHER OILS	0	0	0	0	0	0	0
SUNFLOWER SEED	0	0	0	60	0	0	398
OTHER OILSEEDS AND PRODUCTS	0	0	0	0	0	0	150
COTTON, LINTERS AND RAW SILK WASTE	0	0	0	0	0	0	0
TOBACCO	0	0	0	0	0	0	0
SEEDS	102	216	1,792	1,328	900	1,427	1,750
TALLOW AND GREASE	0	0	0	0	0	0	0
HAIR AND WOOL	0	0	0	0	0	0	0
OTHER LIVESTOCK PRODUCTS	0	0	0	0	0	0	0
POULTRY MEAT	0	0	0	0	0	0	0
BUTTER AND MILK FAT	0	0	0	0	1,709	2,136	16,216
CHEESE AND CURD	0	0	0	0	0	0	0
OTHER DAIRY	0	2	7	3	6,047	15,762	9,368
PROCESSED VEGETABLES	25	0	0	0	0	0	0
NUTS	0	0	0	0	0	0	0
SUGAR	0	0	0	0	108	0	31
BEVERAGE BASES AND FLAVORINGS	0	0	0	0	83,916	151,601	126,992
OTHER HORTICULTURAL/TROPICAL PRODUCTS	0	0	0	0	20	551	1,383
TOTAL TRADE	407,416	1,553,778	1,928,437	1,849,396	1,657,789	2,580,337	2,727,911

U.S. AGRICULTURAL EXPORTS				UNITED STATES DEPARTMENT OF AGRICULTURE				11190030-USD			
PERIOD: JAN - DEC CUMULATIVE				FOREIGN AGRICULTURAL SERVICE				12/31/88			
								PAGE 91			
COMMODITY EXPORTED AND				QUANTITY				CUMULATIVE TO DATE			
AREA OR COUNTRY OF DESTINATION				1987				1988			
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EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D. C. 20571

July 18, 1989

CABLE ADDRESS "EXIMBANK"
TELEX 66-691

Mr. Dan Vernon
Economic Officer
American Embassy
Baghdad, Iraq

Re: Eximbank Short Term Insurance Cover Reports

Dear Mr. Vernon:

Enclosed you will find your copy of the most recent monthly commitments reports, the schedule of maturities for shipments which have gone forward as of June 30, 1989 and a maturities schedule for the months of July and August. As usual, we have enclosed envelopes containing the same reports that we ask the American Embassy to deliver to each addressee. Also, an envelope containing the same reports has been provided for Mr. Russell Smith.

For your information, as of June 30, 1989, the Central Bank of Iraq had given its clearance for Eximbank to issue cover for contracts which total \$227.6 million (net of cancellations). Our insureds have reported payments which total \$43.5 million. After accounting for these payments, Eximbank's commitments amount to approximately \$184.0 million.

~~Enclosed with this letter, there are~~ ~~enclosed~~ ~~on several~~ ~~maturities which total \$5,517,007.~~ A brief description of those transactions may be found in the enclosed letter addressed to Mr. Taha.

If you should have any questions, please feel free to contact the undersigned.

Sincerely,

Kenneth M. Tinsley
Kenneth M. Tinsley
Loan Officer
Insurance Division

Enclosure

Copy to: Mr. Russell Smith

cc: Charamella, Hunt, Feeney/Echeverria, Brinskele-FCIA/NY, Tinsley, FILES



EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

August 11, 1989

CABLE ADDRESS "EXIMBANK"
TELEX 89-401

Mr. Dan Vernon
Economic Officer
American Embassy
Baghdad, Iraq

Re: Eximbank Short Term Insurance Cover Reports

Dear Mr. Vernon:

Enclosed you will find your copy of the most recent monthly commitments reports, the schedule of maturities for shipments which have gone forward as of July 31, 1989 and a maturities schedule for the months of August and September. As usual, we have enclosed envelopes containing the same reports that we ask the American Embassy to deliver to each addressee. Also, an envelope containing the same reports has been provided for Mr. Russell Smith.

For your information, as of July 31, 1989, the Central Bank of Iraq had given its clearance for Eximbank to issue cover for contracts which total \$227.6 million (net of cancellations). Our insureds have reported payments which total \$60.6 million. After accounting for these payments, Eximbank's commitments amount to approximately \$167.0 million.

As of the date of this letter, ~~Eximbank's~~ on several maturities which total \$2,307,058. A brief description of those transactions may be found in the enclosed letter addressed to Mr. Taha.

If you should have any questions, please feel free to contact the undersigned.

Sincerely,

Kenneth M. Tinsley
Kenneth M. Tinsley
Loan Officer
Insurance Division

Enclosure

Copy to: Mr. Russell Smith

cc: Charamella, Hunt, Feeney/Echevarria, Brinskele/FCIA-WY, Tinsley, FILES

August 29, 1989

MEMORANDUM

TO: Daniel Bond
Vice President

FROM: Kenneth M. Tinsley
Loan Officer
Insurance Division

SUBJECT: Summary of recent activity regarding cover for Iraq

Since the resumption of cover for Iraq on July 9, 1987 through August 29, 1989, Iraq's authorities have given clearance for Eximbank/FCIA to issue cover for contracts which total \$227.6 million. However, clearance has not been given for Eximbank to cover any contracts since March 1989 when, at that time, the total amount of contracts cleared exceeded the \$200 million exposure ceiling by \$18.7 million. Coverage for the individual contracts which comprised the \$18.7 million "overflow" was issued on a first in-first out basis as payments were made which replenished authority for new commitments. By June 1989, Iraq had made sufficient payments such that the overflow was eliminated.

As of July 31, 1989, our insureds had reported total payments of \$60.6 million. Eximbank's aggregate principal level of exposure amounts to approximately \$167.0 million which leaves \$33.0 million available for new commitments under the \$200 million exposure ceiling. As of August 29, 1989, ~~the total amount of contracts cleared has exceeded the \$200 million exposure ceiling by \$18.7 million.~~ The appropriate Iraqi officials have been apprised of the arrears. Also, staff is in the process of determining if the August maturities of approximately \$10.0 million have been paid.

On August 28, 1989, staff spoke with Mr. Yousef Abdul Rahman, the Commercial Counselor at the Iraqi Embassy who stated that he had just returned from a month's visit to Baghdad where he spoke to high level officials about the recent payment problems. Mr. Rahman believes that some administrative inefficiencies on the part of Bank of New York, the principal clearing bank for Rafidain Bank, is partly to blame for the slow payments. He believes that his trip was productive and that changes will be made which will result in timely payments in the near future.

cc: Charamella, Hunt, Tinsley, FILES

**FOR NATIONAL ADVISORY COUNCIL
USE ONLY**

NATIONAL ADVISORY COUNCIL

STAFF COMMITTEE

MINUTES

89-37

September 12, 1989

**(Chairman), Treasury Department
(Secretary)**

Agency for International Development

, Federal Reserve Board

Department of Commerce

Department of State

Export-Import Bank

, Department of Agriculture

U.S. Trade Representative

Department of the Interior

Trade and Development Program

FOR NATIONAL ADVISORY
COUNCIL USE ONLY

MAC MEETING 89-37
September 12, 1989
Page 1

2. AGRICULTURAL EXPORT CREDIT SALES

FY 1989 Programs:

Iraq - GSM-102 - \$10 million (MAC Doc. 89-1131)

The Agriculture representative presented a proposed \$30 million addition to Iraq's FY 1989 program. The additional guarantees were intended to support exports of feedgrains, protein meal and wheat. He said that there was some urgency in this request because the commodities were moving to port and the sales were ready to be finalized.

The Federal Reserve representative questioned the propriety of proceeding with both this addition to the FY 1989 GSM program and the upcoming FY 1990 GSM guarantee program due to the developing scandal involving the CCC guarantee program for Iraq and the Atlanta branch of the Banco Nazionale del Lavoro (BNL). He said that, in his opinion, it was inopportune to move ahead with these new proposals and requested that Agriculture withdraw the proposals until a later date. He also noted that the credibility of the MAC was at issue and cautioned that he would recommend that Governor Kelly oppose the proposals if Agriculture wished to press the issue.

In summary, the Federal Reserve representative requested that the proposal for Iraq be withdrawn due to: 1) the possibility that criminal charges could be brought in conjunction with the illegal BNL lending activity; 2) uncertainty as to what the financial impact on the CCC might be; and 3) Iraq's generally uncreditworthy state. With regard to the last point, the Federal Reserve representative stated that Iraq has delayed

FOR NATIONAL ADVISORY
COUNCIL USE ONLY

MAC MEETING 89-37
September 12, 1989
Page 2

payments to foreign creditors and had engaged in unilateral debt reschedulings. He also noted that the Italian export-import bank had had to pay on guarantees of \$360 million worth of export loans which had been defaulted on by Iraq.

The Agriculture representative noted that there was no evidence that any transaction involving Iraq had violated the regulations governing the CCC guarantee program. He also noted that ENL was not the only bank involved in the guarantee program with Iraq, and, while ENL had had a large participation in the program two years ago, the bank was currently not very active in the CCC guarantee programs. Finally, the Agriculture representative stated that the CCC had guaranteed payments by Rafidain Bank, in Iraq, to ENL, and so far there had been no evidence of non-payment by Rafidain Bank. Therefore, the CCC did not consider itself to be at risk.

In response to further questions from the Federal Reserve representative, the Agriculture representative said he had no evidence of any wrongdoing on the part of the Iraqis and asserted that USDA had a responsibility to U.S. exporters to continue the guarantee program.

A final point made by the Federal Reserve representative was that, as money was fungible, new bank letters of credit could be used to pay old debts in a "Ponsi-type" scheme.

In reply to a question from the Treasury representative regarding whether the Rafidain Bank viewed the improperly issued bank letters of credit as valid, the Agriculture representative said that the bank had not made a decision one way or the other. He again emphasized that there had been no reports of non-payment on the part of the Rafidain Bank.

The Treasury representative then asked if USDA was completely satisfied that the ENL affair would have no impact on the proposed additional guarantees under review. The Agriculture representative replied that no assurances could be given until the investigation was completed, but, at this time, there was no evidence that any CCC regulations had been broken.

The Treasury representative, while noting the urgency of the request, said that, given the opposition of the Federal Reserve representative, she would reserve Treasury's position on the proposed increase in Iraq's FY 1989 GSM-102 program until assurances could be given that the ENL affair would not negatively impact on the GSM program in Iraq.

FOR NATIONAL ADVISORY
COUNCIL USE ONLY

MAC MEETING 89-37
September 12, 1989
Page 3

The Commerce representative said the MAC should conduct its affairs on a sound and prudent basis. To this end, he suggested that USDA request an opinion from its Inspector General that the BNL affair would not result in a financial loss to the CCC. He said that since the BNL investigation was not complete, and in light of the Fed's strong opposition, he would reserve his position.

The State representative noted the relative strategic importance of Iraq to the U.S., but also stated concerns about Iraq's creditworthiness and the large size of the upcoming FY 1990 GSM program. The State representative reserved on the current proposal due to the concerns of the Federal Reserve representative. The AID and Eximbank representatives also indicated that they would reserve on the proposal.

1-*car*
2-*file*

Source: *Treasury Dept.*

MEMORANDUM FOR THE FILES

SEP 13 1989

FROM:

SUBJECT: Sept. 12 MAC Meeting on \$30 million in Additional Credit Guarantees for Iraq in FY 1989

USDA proposed an additional \$30 million in GSM-102 credit guarantees for Iraq in FY 1989. The current program is \$1.037 billion GSM-102, \$50 million GSM-103. All agencies reserved out of concern about the implications for the USG of the Banca Nazionale del Lavoro's Atlanta branch affair.

After USDA introduced the proposal, *Federal Reserve* made a lengthy statement indicating their hope that USDA would withdraw the proposal. *Federal Reserve* had three main concerns: (i) that it was unwise to consider the proposal at this time because of the possible criminal implications of the unfolding scandal; (ii) that the financial impact of the scandal on CCC was not yet clear; and (iii) that there were major Iraqi creditworthiness issues, as indicated by the fact that Iraq has delayed payments and has engaged in unilateral reschedulings, and that the Italian export credit agency has recently had to pay out \$359 million to exporters for claims. The *USG* indicated that if they were pushed for a vote, staff would recommend a "no" vote on the \$30 million proposal to *Federal Reserve Representative*.

USDA's basic response is that USDA is keeping very close tabs on the situation but has no indication that any transactions are outside CCC regulations; nor any indication that Rafidain will not honor its commitments. Other points made by USDA include that while BNL was active two years ago, it has been less active recently; that the exposure to BNL is not total exposure; that CCC guarantees the Iraqi payments to exporters, not any payments by BNL; that other banks besides BNL do business in Iraq.

Federal Reserve asked specifically if USDA had any indication of wrongdoing by the Iraqis, to which USDA responded that they hadn't heard anything.

Agency responses

Treasury asked if USDA could provide assurances, based on USDA investigations, that they were completely satisfied that the BNL affair has no implications for the transaction proposed. Since USDA's response indicated only that there was no indication so far of implications, *Treasury* reserved. The

Treasury

- 2 -

Treasury representative indicate further that *Treasury* understood the context in which the proposal was being made and was not attempting to block the exports; that our evaluation of Iraq's creditworthiness has not changed (Iraq is not creditworthy); and that in light of the uncertainty surrounding the implications of BNL, we could not vote at this time.

Commerce spoke eloquently of the need to conduct government affairs on a sound basis, and indicated they would abstain. *State* indicated they had a number of concerns, had been persuaded by the *Fed* of the seriousness of the case, and would reserve. *USTR* *Exim* *ATD* also reserved.

The NAC Chairman suggested, in light of the discussion and the tally, that USDA get back to him on how USDA wanted to proceed.



United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D.C.
20250

006326

14 Sept 88

Mr. Richard Long
Deputy Assistant Inspector
General for Audit
Office of Inspector General
U.S. Department of Agriculture
Washington, D.C. 20250

Dear Dick:

I am enclosing correspondence which our Forest Products Division received from exporters alleging that Iraq is threatening to blackball companies from GSM-102 business unless they provide additional "goods" to Iraq free of charge.

Mr. Sims, in response to verbal complaints, raised this subject with the Iraqi delegation during annual credit consultations in Baghdad in October 1988. Mr. Sims explained that this practice, if true, was unacceptable. The Iraqi side denied everything.

I realize that the information we have is sketchy. However, we would appreciate it if you would look into this as soon as possible.

Sincerely,

Glenn D. Whiteman
Deputy Assistant Administrator
for Export Credits

Enclosures

September 7, 1989

Mr. Abner E. Deatherage
Forest Products Division
Foreign Agricultural Service
Room 4554 South Building
USDA
Washington, DC 20250

Dear Mr. Deatherage:

The purpose of my letter is to alert you to the increasing amount of pressure placed upon our organization as an exporter of commodities to Iraq under the GSM 102 program. The nature of this letter is confidential and is intended to assist you during your forthcoming negotiations with the Iraqi authorities. Kindly refrain from using our name in the upcoming meetings.

Gecist, the Iraqi State Organization with whom we negotiate our contracts, has from time to time approached [REDACTED] and apparently other exporters, in an effort to receive, free of charge, various non-agricultural commodities as "after sales service". All of the inquiries relate to industrial goods ranging from tires to trailers, trucks and spare parts, apparently needed by the Iraqi industry.

The recent telex requests have exhibited extraordinarily threatening language where the future business relations are being judged by our response to requests for free goods.

[REDACTED] is extremely concerned about these demands and would appreciate a prompt involvement of CCC to remind the Iraqis that their requests are unreasonable and not in accordance with the GSM-102 program requirements. Similarly, we would appreciate a communication from your offices advising exporters to respond to these telex messages in a consistent manner.

We appreciate the significant benefits offered by the USDA program and would like to see it continue with implementation guidelines that are also enforced in the recipient countries.

Sincerely,

September 8, 1989

Mr. Abner Deathridge
Room 4554 South Building 22152
U.S.D.A./FAS/CHP/FTD
14th & Independence Avenue S.W.
Washington, D.C. 20250-1000

Dear Abner:

Enclosed please find the telexes which you requested.

If you should have any questions, please do not hesitate to call.

Very truly yours,

STAND BY FOR BROADCAST CALL

212227 TRESTO IK

212227 TRESTO IK

212257 GCMCO IK

T. 3123 TIMBER DEPT DO. 5/9/69.

REFER YOU TO OUR PREVIOUS TLXS REGARDING CRANES/TRUCKS SPARE PARTS

AND RE

CONFIRM THAT OUR FUTURE BUSINESS WITH YOUR COMPANY WILL DEPEND
MAINLY ON THE RANGE OF YOUR COOPERATION WITH OUR COMPANY BY FURNISHING
US WITH FREE OF CHARGES TRUCKS/TRAILLE

AWAITING Y POSITIVE REPLY SOON REGARDS.

0143 09/69

THEY DISCONNECT

Elapsed time 00:02:40

PRINTED AT 0140 EDT 09/05/69

STAND BY FOR BROADCAST CALL

212227 TRESTO IK

212237 BCMCO IK

T.2868 TIMBER DEPT DD.16/8/89.

FROM STATE TRADING COMPANY FOR CONSTRUCTION MATERIALS .

REQUESTED TO FURNISH OUR COMPANY WITH (FREE OF CHARGES) REPEAT
(FREE OF CHARGES) TRUCKS OR TRAILERS BRAND INTERNATIONAL BUT TO
BE SIMILAR TO FOLLOWING SPECIFICATIONS . HOPE RECEIVING Y POSITIVE
REPLY AS SUCH COOPERATION WITH OUR COMPANY WILL MAINTAIN OUR
BUSINESS RELATIONSHIP AND ANY NEGATIVE REPLY FROM Y SIDE WILL LET
US TO CONSIDER DEALING WITH Y COMPANY AND BLACK LISTED .
SPECIFICATION

CHASSIS :

RIVETED LADDER - TYPE FRAME . WHEELBASE 3.600+1 .340MM. LEFTHAND
STEERING REAR WHEEL DRIVE (6X4 VERSION) 11 TRILEX RIMS 8,5-20
INCLUDING RYRES OF SIZE 12.00-20 SHECK ABSORBERS ON FRONT AXLES
REINFORCED REAR SPRINGS FUEL TANK 400LTS, DUAL CIRCUIT COMPRESSED
AIR BRAKE SYSTEM TYRE INFLATING HOSE 10M REAR AXLE RATIO 1:7:3
RADIATOR HIGHER EFFICIENCY , OIL BATH AIR FILTER IN ENGINE
COMPARTMENT CAB SUSPENSION REINFORCED FUEL FILTER IN FILTER NECK.
ENGINE AND TRANSMISSION :

6- CYLIUNDER DIRECT INJECTION DESEL ENGINGS ON 355 WITH AN OUTPUT
OF 177 KW (240 HP/DIN) AT 2,200 RPM , NON -SYNEHRONIDED
GEARBOX AK 6-90/7,03 WITH 6 FORWARD GEARS AND REVERSE , SINGLE
DISC DRY-TYPE CLUTCH , TROPICAL THERMOSTAT,
DRIVER'S CAB

OF SHEET STEEL CONSTRUCTION WITH HEATING ACCOUMODATION FOR 3
PERSONS ADJUSTABLE DRIVER'S SEAT , HYDRO - POWER STEERING
WINDHEELD OF LAMINATED SIGLA GLASS, OTHER WINDOWS MADE OF
SAFETY GLASS SEKURIT 3 WINDSCREEN WIPERS , 2 SUNCHADES, COMPLETE
VENTILATING AND HEATING SYSTEM , VIBRATION FREE MIRRORS TIGHT
AND LEFT , FUEL GAUGE , CLEAR INSTRUMENTAL PANEL , SEAT COVERS
LEATHERETTE , HEADLIGHTS INREDIATOR GRILL BRAKS PEDAL REINFORCED
OTHERWISE EQUIPPED IN SERIES .

ELECTRICAL EQUIPMENT

ALTERNATOR 28 V/27A , COMPLETE ELECTRICAL LIGHTING AND STARTING
SYSTEM 24V. WARNING BLINKER EQUIPMENT , DIRECTION SIGNALS , ALL
WIRES ASSEMBLED IN A NEW KIND OF HARNESS , TROPICAL BATTERIES
GRAVEL PROTECTION ON HEAD LIGHTS , DIFFERENTIAL GEAR SPEEDOMETER,
OTHERWISE IN STANDAND EXECUTION .
ACCESSORIES

JACK 25 TONS , INSPECTION LAMP WITH 10M VABLE SPEEDOMETER KM,



73

EXPORT-IMPORT BANK OF THE UNITED STATES
WASHINGTON, D.C. 20571

September 15, 1989

CABLE ADDRESS "EXIMBANK"
TELEX 66-401

Mr. Dan Vernon
Economic Officer
American Embassy
Baghdad, Iraq

Re: Eximbank Short-Term Insurance Cover Reports

Dear Mr. Vernon:

Enclosed you will find your copy of the most recent monthly commitments reports, the schedule of maturities for shipments which have gone forward as of August 31, 1989 and a maturities schedule for the months of September and October. As usual, we have enclosed envelopes containing the same reports that we ask the American Embassy to deliver to each addressee. Also, an envelope containing the same reports has been provided for Mr. Russell Smith.

For your information, as of August 31, 1989, the Central Bank of Iraq had given its clearance for Eximbank to issue cover for contracts which total \$227.6 million (net of cancellations). Our insureds have reported payments which total \$67.1 million. After accounting for these payments, Eximbank's commitments amount to approximately \$160.5 million.

As of the date of this letter, Iraq is in arrears on several maturities which total \$4,928,086 and there is unpaid interest of \$51,215. A brief description of those transactions may be found in the enclosed letter addressed to Mr. Taha.

If you should have any questions, please feel free to contact the undersigned.

Sincerely,

Kenneth M. Tinsley
Kenneth M. Tinsley
Loan Officer
Insurance Division

Enclosure

Copy to: Mr. Russell Smith

cc: Charamella, Hunt, Feeney/Echeverria, Tinsley, FILES
Cavanagh-FCIA/NY



DEPARTMENT OF THE TREASURY
WASHINGTON

SEP 15 1989

INFORMATION

MEMORANDUM FOR

FROM:

SUBJECT: NAC Reserves on Additional Credit Guarantees for Iraq
in FY 1989

You should be aware that at the NAC staff meeting on Tuesday, September 12, NAC agencies reserved on a USDA proposal to allocate to Iraq an additional \$30 million in GSM-102 credit guarantees in FY 1989. The agencies, including *Treasury*, reserved because of concern about the possible implications for the CCC program of the Banca Nazionale del Lavoro's (BNL's) Atlanta branch affair. *Agriculture* has not yet indicated if they will ask that the reserves be lifted and a vote taken.

BNL's Atlanta branch reportedly extended to Iraq \$1.7 billion in credit, and kept this lending and associated financing off its books. The nature of all exports for which funds were lent is not clear, but agricultural exports were substantial. CCC guaranteed over \$700 million of the \$1.7 billion. In addition, there are reports that the spread on the lending was unusually thin.

There is a great deal of speculation about the motives underlying the BNL Atlanta branch's handling of the Iraqi lending; there are also concerns about the nature of the participation of other parties involved. There may be basis for criminal action. We are unsure of the nature of any violation and have been asking USDA to assure us that the BNL affair carries no implication for current proposals and future programming for Iraq. *Federal Reserve*, which regulates the Atlanta branch, took the lead in calling for careful consideration of the proposed increase in CCC guarantees for FY 1989.

We will continue to monitor developments. USDA will probably be pressing, as soon as the air clears, for a decision on their proposed \$1 billion FY 1990 guarantee program for Iraq.

FOR OFFICIAL USE ONLY



DEFENSE INTELLIGENCE AGENCY

WASHINGTON, DC 20340 6163



FOUO-18,702/DT-584

49 SEP 1989

United States Attorney
 Eastern District of California
 Room 3305 Federal Building
 United States Courthouse
 650 Capitol Mall
 Sacramento, CA 95814

**SUBJECT: Assessment on the Activities of Abdel Kader Helmy, et al.
 and the Egyptian/Iraqi Condor Missile Program**

1. This office became aware of the activities of Dr. Abdel Kader Helmy and his associates in June 1988. Acting at the request of the U.S. Customs Service, DIA assisted U.S. investigators with technical and intelligence expertise in the area of missile technology and proliferation to the Middle East. As a result of the review of the documents provided to this office, DIA offers the following pertaining to the activities of Dr. Helmy's group.

2. The list of items/materials being sought by Dr. Helmy is entirely consistent with items necessary to support the manufacture of a ballistic missile. Specifically the chemicals, when combined into one list, are most likely to be found in a facility which manufactures composite solid propellant motors. The carbon based blocks and cones were most probably for use on the nose of the missile warhead. The carbon phenolic tape has numerous uses including the thermal wrap of rocket motor casings or nozzles, while the maraging steel is of the particular grade commonly used in rocket motor casings production. A review of the materials and the technical manuals which Dr. Helmy was obtaining can result in only one opinion, that Dr. Helmy was procuring materials to support the production of a ballistic missile.

3. The Egyptian Ministry of Defense, working with financiers from Iraq, have contracted with the Argentines to produce a ballistic missile capable of carrying a warhead of 500 kilograms up to 1000 kilometers in range. This missile is most commonly referred to as the "Condor" missile. The Condor missile meets the minimum criteria set forth in the Category I of the Missile Technology Control Regime (MTCR). The Condor program has been closely monitored by the seven member nations of the MTCR (United States, Federal Republic of Germany, France, Canada, Great Britain, Italy and Japan) who are responsible for monitoring world wide missile proliferation activities. This specific missile would represent a significant improvement over currently assessed missile capabilities of Egypt. DIA believes Dr. Helmy was procuring these materials for the Condor missile.

4. The Condor missile program has been ongoing since at least 1984. The progress has been slow due in part to the lack of indigenous technology and the need to covertly acquire the technology/materials used in production of ballistic missiles abroad. The activities of Dr. Helmy are consistent with observed activities, sponsored by Egypt and Iraq, to facilitate the production of the Condor missile. Without the activities of Dr. Helmy, and his co-conspirators, in procuring restricted technology, completion of the Condor missile program is doubtful. Dr. Helmy's apparent willingness to provide critical materials necessary for the production of the Condor missile was important to the long term goals of establishing an indigenous ballistic missile production capability in Argentina, Egypt, and Iraq.

5. DIA believes that the introduction of a ballistic missile, capable of carrying conventional, chemical, or nuclear warheads, into either Egypt or Iraq would increase regional tensions and add further fuel to the regional arms race. Israel and Iran, the perceived adversaries of Egypt and Iraq, would most surely respond to these acquisitions in an escalating posture, by considering preemptive strikes, starting or accelerating anti-ballistic missile programs or acquiring an equal or greater number of ballistic missiles. The potential regional destabilization which might have been caused by Dr. Helmy's activities would be damaging to U.S. interests and peace efforts in the region.



MICHAEL R. HIGGINS
Technology Security Intelligence
Analyst

CC:
GC

FOR OFFICIAL USE ONLY

UNITED STATES GOVERNMENT
Memorandum

DEPARTMENT OF THE TREASURY
UNITED STATES CUSTOMS SERVICE



DATE: September 21, 1989

FILE: INV 3 - 02 R:CG:IA

TO: Assistant Regional Commissioner (Enforcement)
Southeast Region

FROM: Resident Agent in Charge
Atlanta, Georgia

SUBJECT: Banca Nazionale Del Lavoro Investigation

The attached letter represents the status and investigative strategy being followed by this office regarding the investigation of the BNL-Atlanta bank. The U.S. Attorney, Robert Barr has set a tentative deadline for indictment of the principals in the case for October 20, 1989. We feel the investigation involving the Cuban sugar transactions could be completed within the thirty day time limit, however this would require a prompt response from OFAC. Additional status reports will follow as the investigation progresses.

E. W. Velasco
E. William Velasco

cc: SAC/CG



DEPARTMENT OF THE TREASURY

U.S. CUSTOMS SERVICE

ATLANTA, GEORGIA

September 21, 1989

Honorable Robert L. Barr, Jr.
United States Attorney
Northern District of Georgia
1800 Richard B. Russell Building
75 Spring Street SW
Atlanta, Georgia 30335

Dear Mr. Barr,

As you are aware, the U.S. Customs Service, Office of the Resident Agent in Charge, Atlanta, Georgia is involved in a joint investigation with the Federal Bureau of Investigation, Internal Revenue Service, Department of Agriculture, Defense Criminal Investigative Service and Examiners of the Federal Reserve Bank of Atlanta relative to the financial/banking and exporting activities of Banca Nazionale Del Lavoro (BNL-Atlanta), 235 Peachtree Street, N.E., Atlanta, Georgia. The crux of this investigation involves BNL-Atlanta's extension of unauthorized credit in excess of 2.6 billion dollars to American, British and German companies involved in trade with Iraq. The commodities involved are suspected to include shipments of agricultural products, industrial machinery, military-type technology and various controlled chemicals. In addition, BNL-Atlanta is suspected to have provided loans to various U.S. firms for the illegal export to Iraq of missile related technology to be used in the Condor II Project.

OFFICE MEMORANDUM

DATE September 22, 1989

TO THOSE LISTED BELOW SUBJECT Banca Nazionale del

FROM [REDACTED] LAVORO

Virgil Mattingly called me on September 21 to brief me about a luncheon conversation between Ed Willingham and Assistant United States Attorney Gayle McKenzie, which, I am told, took place on September 21.

- McKenzie said that everything being written about the missile sales is true.
 - Matrix Churchill made missile casings.
 - XYZ sold missile technology to Iraq.
- McKenzie is very concerned about a leak; she believes (whether rightly or wrongly) that the leak is either ENL Rome or the Bank of Italy.
- McKenzie believes the ENL - Entrade relationship is a "big deal." Customs and Defense Department investigators have told her that they have never seen as many violations of export laws.
- McKenzie said "Why doesn't New York [Fed] do something about those brokers." She was referring to the money brokers who were middle men in the funding of ENL, and who are based in New York.
 - These brokers are reported to have sent to ENL two sets of invoices, which allegedly signifies knowledge on the part of the brokers of improper action by ENL.

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- McKenzie said that Drogoul and Yavuz Tezeller (Executive Vice President of Entrade) were confederates, and made millions of dollars through the following scheme.
 - They would use a trading company to buy goods.
 - The goods would be sold to Iraq at double the price of purchase.
 - The sale would be financed by BNL.
- McKenzie said that investigators have found the "bribe" check that Entrade gave to Von Wedel for the home purchase.
- McKenzie said that she believes that BNL has accounts at other banks in the United States, and that we do not yet know of these accounts.
- McKenzie said that the criminal provisions of Title 18 of the United States Code are sorely lacking with respect to foreign banks.
- McKenzie confirmed her plans to visit with Entrade officials in New York.



DEPARTMENT OF THE TREASURY
WASHINGTON

SEP 25 1989

ACTION

MEMORANDUM FOR ASSISTANT SECRETARY DALLARA

FROM:

SUBJECT: Proposed CCC Program for Iraq in FY 1990 and
Proposed Additional Guarantees in FY 1989

Issue

The NAC staff meeting Tuesday, September 26, is currently scheduled to consider USDA's proposed \$1 billion Commodity Credit Corporation (CCC) GSM-102 export credit guarantee program for Iraq in FY 1990. USDA may also propose an additional \$30 million in GSM-102 guarantees for Iraq in FY 1989. The FY 1990 proposal was originally scheduled for consideration at the NAC staff meeting on August 15, but action was delayed at the request of the *Fed* in light of investigations into unauthorized lending to Iraq by the Atlanta branch of the Banca Nazionale del Lavoro (BNL). The additional FY 1989 guarantees were proposed by USDA on September 12, and all agencies reserved in light of the BNL affair. An Iraqi buying team is scheduled to come to Washington October 3-4, but may reschedule the visit for October 5-6.

Background

The BNL Affair. The Atlanta branch of Banca Nazionale del Lavoro (BNL) reportedly extended to Iraq \$1.7 billion in unauthorized credit for purchase of agricultural commodities and industrial goods from the US and Italy, and kept this lending and associated financing off its books. USDA's CCC has guaranteed payment by Iraq of some \$700 million of this lending. The implications of the BNL affair for CCC programming in Iraq are not clear. The full nature of the transactions is unknown -- speculation exists that the Atlanta financing could involve fraud, kickbacks and financing of illicit military exports. Iraq at one point threatened to stop making interest payments if BNL did not honor its commitments to provide an additional \$920 million in financing.

Agriculture Credit Guarantee Programs in Iraq. USDA has seen Iraq as a major market for agricultural exports, and has run the program at the \$1 billion level in both FY 1988 and 1989.

- 2 -

This makes the Iraq program the second largest credit guarantee program worldwide, after Mexico. CCC's current exposure (contingent liability) for Iraq under the credit guarantee programs is \$1.7 billion, roughly one quarter (24%) of CCC's total worldwide exposure under these programs.

Last year USDA proposed and went ahead with a \$1.1 billion credit guarantee program for FY 1989 which Treasury opposed on creditworthiness grounds. We supported a maximum program size of \$600 million, as did the Fed. We believe a \$600 million program is sufficient to cover exports of American grain and wood products -- the most politically sensitive commodities -- at the levels of the last few years.

Creditworthiness Issues. Iraq continues to run very large current account deficits as it rebuilds and rearms despite the end of the war with Iran. It has financed these deficits by building up arrears and doing bilateral reschedulings on its estimated \$38 billion dollars in debt to non-Arab countries.

With the exception of the UK, all other major export credit agencies are off cover for Iraq, and ~~■~~ *Exim* is open only for short-term guarantees (with a \$200 million ceiling). CCC has remained open because Iraq has remained current with its payments, as it is considered a "preferred creditor" by Iraq.

Should Iraq fall into arrears, CCC would not have the option of rescheduling these credits to avoid losses. Iraq refuses to accept an IMF program and consequently could not use the Paris Club, the only forum in which the US government will reschedule public sector credits. (CCC losses under the credit guarantee programs are not in the 150 account.)

Iraq has pursued a policy of repaying only those creditors whose new credits are larger than the amounts due under old credits.

Other Agency Positions

Agriculture is uncomfortable with its exposure in Iraq, and wants to decrease the program size slowly, so as not to endanger US market share. *State* is concerned about "giving the wrong signal" to Iraq, but may not oppose a gradual ratcheting down of program size. *Exim* is not inclined to oppose the proposed FY 1990 program, but might support a smaller program if given good reason.

- 3 -

If ^{Fed} pushed for a vote on USDA's \$1 billion ^{Fed} proposal for Iraq, ^{Fed} staff expect to recommend that the ^{Fed} abstain or oppose the proposal, based on investigations by the FRB and by the US Attorney's office into the BNL affair and on concerns about Iraq's creditworthiness. If and when the FRB is prepared to go forward with a program in Iraq, the Bank is likely to follow ^{Treasury} lead in the program size it supports.

Recommendations:

(1) Possible BNL link: Should the ^{Fed} object to consideration of ^{Treasury} proposal for an additional GSM-102 credit guarantee program for Iraq because of the investigations into the BNL affair, that ^{Treasury} oppose any new programming at this time.

132 Agree _____ Disagree _____ Other

(2) No Perceived BNL Link: Should the ^{Fed} indicate that it is acceptable from a regulator's point of view to proceed with consideration of USDA's proposals:

(a) Regarding the proposal for \$1 billion in GSM-102 credit guarantees for Iraq in FY 1990, that ^{Treasury} not object to a maximum program size in FY 1990 of \$600 million, on creditworthiness grounds.

Comment: A program at the \$600 million level would be less than the estimated \$700 million in payments of principal due in FY 1990, and would test the preferred creditor status of the CCC program. A program at the \$1 billion level as proposed by USDA would increase the chances that the Iraqis will remain current on CCC obligations.

LB Agree _____ Disagree _____ Other

(b) Regarding the proposal for an additional \$30 million in GSM-102 credit guarantees for Iraq in FY 1989, that ^{Treasury} not object to this amount.

Comment: Staff recommend not opposing this proposal because, while we would prefer not to increase the size of Iraq's already substantial GSM-102 guarantee program for this fiscal year, we do not wish to block a relatively small volume of guarantees needed by US exporters for sales in process and already arranged.

LB Agree _____ Disagree _____ Other

Board of Governors
of the
Federal Reserve System

OFFICE CORRESPONDENCE

Date September 27, 1989To Subject: Proposed Agricultural CreditFrom Guarantee to IraqSUMMARY

In mid-August, the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC) requested that the NAC consider a proposal for a \$1 billion export credit guarantee program for Iraq in FY 1990. At that time, Federal Reserve contacted USDA and expressed concern over the not-yet public controversy involving Banca Nazionale del Lavoro's (BNL) Atlanta branch and its unauthorized letters of credit to Iraq, some of which were guaranteed by CCC. USDA agreed to postpone the item, and it was withdrawn from the NAC agenda. Subsequently, at the September 12 NAC meeting, USDA proposed a \$30 million supplement to Iraq's FY 1989 program, raising the current program over the \$1.1 billion ceiling agreed to last year. At the meeting, the Federal Reserve stated concerns on the BNL situation and the unknown impact on CCC's financial position, and on Iraq's general creditworthiness. NAC agencies decided to reserve their agencies' positions and not vote at the time. The CCC representative did not press for a vote at that meeting, and consideration was effectively postponed. We learned today that the CCC intends to put the FY 1990 program for \$1 billion on the October 3 NAC agenda. (The \$30 million supplement under FY 1989 is no longer being considered, given the end of the fiscal year on September 30.)

Background on the CCC program in Iraq

The CCC is authorized to develop and administer programs to expand U.S. agricultural export markets. In recent years, CCC has carried out its activities largely with two export credit guarantee programs, GSM-102 and GSM-103. GSM-102 provides guarantees on private

short-term financing for up to three years, while GSM-103 covers intermediate credit terms of between three and ten years. In FY 1989, the ceiling on GSM-102 program announcements was \$5 billion, while the GSM-103 program target was \$500 million. Roughly 20 percent of the FY 1989 GSM-102 program was allocated to Iraq.

For FY 1990, USDA has proposed a \$1 billion GSM-102 program for Iraq. On September 27, we learned that this program will be considered by the MAC on October 3.

For FY 1989, USDA proposed a \$1.1 billion program for Iraq that the Treasury and Federal Reserve were not inclined to support. At that time, Treasury and Federal Reserve were concerned with Iraq's creditworthiness, and recommended an initial program of \$600 million, which could be supplemented if needed. Treasury and Federal Reserve were overruled by other voting members of the MAC, and the program of \$1.1 billion was approved. (Treasury and Federal Reserve were acting on the precedent established in FY 1988 when an initial \$600 million program was supplemented twice so that the cumulative program amounted to \$1.025 billion.) According to USDA, \$943.5 million of sales had been registered under the FY 1989 program as of August 18, 1989.

Recent contacts between the Federal Reserve and USDA

Early in the week of September 18, Mr. Kunkel of USDA expressed an interest in meeting with Federal Reserve staff in order to ascertain when the Federal Reserve would be prepared to consider the CCC program for Iraq in the MAC. After consulting with Mr. Truman (who consulted with Mr. Mattingly), Mr. Connors proposed to Mr. Kunkel that he speak with USDA agents working on the BNL case in Atlanta. If, after speaking with the agents, the USDA still wanted to bring the Iraq FY 1990

- 3 -

program forward to the MAC, the Federal Reserve would not object to consideration. However, it was made clear that a commitment to consider the case was not a commitment to support the program.

Over the last couple of days, Mr. Kunkel has been trying to set up a meeting with Federal Reserve staff on the Iraq case; a meeting has been set for September 29. Kunkel said that USDA has spoken with its agents. He indicated today that the FY 1990 program would be on the MAC agenda on October 3.

Treasury staff view on the program for Iraq

As long as Federal Reserve had reservations about moving forward with the proposal, Treasury adopted the same position. USDA officials were meeting with Treasury staff today to discuss support for the FY 1990 program. Treasury staff is suggesting to Dallara that a maximum \$600 million program be supported in FY 1990, but Dallara's feelings on this case are unknown.

September 27, 1989

Recent Developments in Iraq**Overview**

- Debt problems and oil revenue constraints continue to plague Iraq as it attempts to recover from a devastating eight-year war with Iran.
- Iraq is in the early stages of trying to rebuild after much of its infrastructure was destroyed during the Gulf war.
- The Iraqi government does not release crucial statistics, making an accurate assessment of economic performance difficult.
- Iraq has been servicing its bank debt, promising to repay in full 1993, but has been rescheduling selectively with official creditors.
- Iraq is current on its payments to the Exim and the CCC.

Debt issues

Non-Arab foreign debts climbed during the Iran-Iraq war and are estimated to be as high as \$35 billion. Debts to Arab countries, mainly Saudi Arabia and Kuwait for war financing, are thought to be between \$30 to \$50 billion. Arab debt is expected to be written off, however. BIS data indicate that exposure of all BIS banks in December 1988 reached \$8.14 billion; (the BNL credits are presumably not captured in these data). U.S. bank claims were \$265 million as of March 1989.

Iraq has adopted a policy of rescheduling official debt on a bilateral basis, negotiating individually with each country. So far, several agreements have been reached. France recently agreed to reschedule \$1 billion of the \$1.3 billion total debt from 1988 and 1989 maturities. Germany will reschedule all of the \$120 million debt maturities falling due in 1989, and wants to reduce its net exposure from

the current \$600 million to \$400 million by end 1993. Japan, whose exposure totals \$5 billion, agreed to reschedule payments due in 1988 and 1989, to 1990 and 1991.

The United Kingdom suspended cover for British exports in January 1989 after continuing payment arrears. Prior to the suspension, the United Kingdom had been the most willing among European creditors to extend new credits. Total Iraqi debt to the United Kingdom stands at \$1.3 billion, including \$612 million in credit agreed to in November 1988.

The Netherlands reached a rescheduling agreement with Iraq in 1987 covering \$100 million. Iraq failed to make the first of five \$20 million payments due in July of 1989. Other countries that have concluded rescheduling agreements with Iraq include Austria, Switzerland, Turkey, and Spain.

U.S. Commercial and Financial Relations with Iraq

The EximBank reopened short-term FCIA coverage to Iraq in July 1987 after going off-cover in March 1986 due to Iraqi debt-servicing arrears. Exim will cover to a \$200 million revolving ceiling. Iraq has asked frequently for substantial medium-term cover from Exim, but the Board suspended discussions due to two delinquent payments and U.S. government concerns over Iraq's use of chemical weapons. Iraq remains current on its payments to Exim in hopes of receiving medium-term cover.

Iraq's CCC credits are discussed in separate notes by Virgil Mattingly and Valerie Chang. Iraq is current in its payments to the CCC.

U.S. trade with Iraq is limited due to Iraqi adherence to the boycott of Israel. All business done under U.S. government credit facilities is exempted, however. The government also tends to apply

boycott restrictions selectively, and removes them from tenders and letters of credit when U.S. suppliers are needed.

Trade and Oil

With claimed proved reserves of 100 billion barrels, only Saudi Arabia boasts higher petroleum reserves. Petroleum exports account for over 90 percent of export earnings. Petroleum export earnings are likely to be about \$14 to \$15 billion this year, up from \$12 billion last year. Oil production has averaged 2.75 mbd in 1989, keeping within Iraq's OPEC quota of 2.78 mbd. With production capacity of 4.5 mbd, far exceeding its OPEC quota, Iraq must try to balance its need for export earnings and its faithfulness to OPEC. Iraq has been expanding export capacity, which may reach 6 mbd next year. Imports are expected to exceed \$16 billion in 1989, implying a slight trade deficit.

Economic Policies

Iraq intervenes heavily in the economy. Most exports and imports are controlled by the state. Iraq embarked on a program of economic liberalization in 1987. Although limited, plans to privatize trade in consumer goods, agriculture, and tourism are under way. The government also recently approved the first foreign investment law, restricted, however, to Arab foreign investment. The Central Bank on September 11 raised interest rates on savings one percent to 7 percent, the first change in more than eight years, to encourage savings. Banks will raise interest on loans also by one point to 11 percent.

Source: Dept. of Treasury

MEMORANDUM FOR THE FILES

SEP 28 1989

FROM:

SUBJECT: Legal Aspects of Voting for Iraq FY 1990
CCC Credit Guarantee Program

In a discussion Sept. 12, 1989, the Fed Reserve official told that it is "inconceivable" that CCC would go ahead with credit guarantee (GSM-102) programming for Iraq in light of the BNL affair. On another occasion (Sept. 22) he told and that there was suspicion that prices on some agricultural commodity export transactions financed by BNL were artificially high and that at least one firm under investigation (presumably an exporter) was going to take advantage of CCC guarantees available in FY 1990.

Agriculture staff tell us that their Inspector General's office and auditors working on the BNL case have found no evidence that CCC credit guarantee program regulations have been violated. They profess ignorance of Fed's suspicions pertaining to the CCC's programs and argue that broader legal concerns -- beyond the purview of CCC regulations -- should not affect program establishment and implementation. They stated that CCC will not honor claims based on fraud, misrepresentation or non-conformance with regulations. They are, however, prepared to tranche the FY 1990 program for Iraq, given the uncertainties and other agencies' concerns.

The Fed has made clear, both by Fed Reserve official statements to Ms. I and in staff discussions, that the Fed's concern in this matter is to make sure that USDA is fully informed about the investigations in making their decision on whether or not to go ahead with a credit guarantee program for Iraq in FY 1990. In view of this, Fed official indicated, Fed investigators and the US Attorney's office are funneling all information they receive to Agriculture investigators in Atlanta.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date September 29, 1989

To [REDACTED]

Subject: CCC Credits at BNL

From [REDACTED]

Today I was called by the Assistant U.S. Attorney in Atlanta, Gail McKenzie, regarding the proposed new CCC guarantee program involving Iraq. Ms. McKenzie was concerned that the CCC should carefully scrutinize any individual contracts granted under their guarantee program. She indicated that there was evidence that certain of the contracts financed by the agency in Atlanta and guaranteed by the CCC were for products the price of which had been doubled and sometimes tripled and that the costs of the goods was so great as to put CCC on notice of potential problems; in certain cases the contracts were for volumes of seed that were far in excess for the needs of the entire country; and that the price of some of the seeds in some cases was so low that the CCC should have been on notice that the seeds were not domestic. She also indicated that she believed that kickbacks to various, I believe she said, Iraqi individuals were included in certain contracts guaranteed by CCC. She also indicated her belief that the Iraqi knew or should have known of the irregularities.

In sum, she stressed that she was concerned that there should be careful review by the CCC of individual contracts guaranteed under the CCC program to avoid the apparent irregularities associated with the BNL financed contracts.

Ms. McKenzie conveyed this same information to Ms. Marion Minch, counsel at Treasury. As you know, the Department of Agriculture Inspector General's office is actively investigating the BNL Agency's activity.



9/27/89



DEPARTMENT OF THE TREASURY
WASHINGTON

MEMORANDUM FOR ASSISTANT SECRETARY DALLARA

ACTION

FROM: William E. Barreda
Deputy Assistant Secretary
Trade and Investment Policy

SUBJECT: Proposed CCC Program for Iraq in FY 1990

Issue

The MAC staff meeting Tuesday, October 3, is currently scheduled to consider a USDA proposal for a \$1 billion Commodity Credit Corporation (CCC) GSM-102 export credit guarantee program for Iraq in FY 1990. In fact, USDA has indicated that although they will ask for approval of the full \$1 billion program, if a case is made that the program should be scaled back because of investigations into unauthorized lending to Iraq by the Atlanta branch of the Banca Nazionale del Lavoro (BNL), then they are prepared to accept a compromise of only \$400 million now and an additional \$400 million later in the fiscal year, if/when developments in the investigations allow. (This would allow a total FY 1990 program of \$800 million.)

The \$1 billion FY 1990 proposal was originally scheduled for consideration at the MAC staff meeting on August 15, but action was delayed at the request of the FSB in light of the BNL affair. A USDA proposal for an additional \$30 million in FY 1989 guarantees was dropped when all agencies reserved in light of the BNL affair. An Iraqi buying team is scheduled to come to Washington October 5-6.

Background

The BNL Affair. The Atlanta branch of Banca Nazionale del Lavoro (BNL) reportedly extended to Iraq \$1.7 billion in credit not authorized by its head office for purchase of agricultural commodities and industrial goods from the US and Europe, and kept this lending and associated financing off its books. Iraq at one point threatened to stop making interest payments if BNL did not honor its commitments to provide an additional \$920 million in financing. USDA's CCC has guaranteed payment by Iraq of some \$700 million of this lending.

While the full nature of the transactions is unknown, the U.S. Attorney's office in Atlanta is investigating

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allegations of fraud and kickbacks (at least in part on CCC-related credits), and financing of illicit military exports. CCC procedures, e.g. in assuring that the goods shipped are in fact US agricultural commodities and that prices are not inflated, appear to be inadequate. In addition, Iraqi officials may be implicated. The U.S. Attorney's office hopes to finish its investigation by the end of the year. At present, the implications of the BNL affair for CCC programming in Iraq are not clear.

USDA's Credit Guarantee Programs in Iraq. USDA has seen Iraq as a major market for agricultural exports, and has run the program at the \$1 billion level or above in both FY 1988 and 1989. This makes the Iraq program the second largest credit guarantee program worldwide, after Mexico. CCC's current exposure (contingent liability) for Iraq under the credit guarantee programs is \$1.7 billion, roughly one quarter (24%) of CCC's total worldwide exposure under these programs.

Last year USDA proposed and went ahead with a \$1.1 billion credit guarantee program for FY 1989 which Treasury opposed on creditworthiness grounds. We supported a maximum program size of \$600 million, as did the Fed. We believe a \$600 million program is sufficient to cover exports of American grain and wood products -- the most politically sensitive commodities -- at the levels of the last few years.

For FY 1990, USDA's proposal on the table (from August 15) is to provide Iraq with \$1 billion in GSM-102 credit guarantees. Faced with MAC agency concerns about the BNL affair, USDA proposed to the Iraqis on September 25 a tranching credit guarantee program in FY 1990, with an initial \$400 million in credit guarantees available and an additional \$400 million later in the fiscal year, if/when developments in the BNL investigation allow. As indicated above, USDA is prepared to accept this compromise in the October 3 meeting.

In the course of the Iraqi Finance Minister's courtesy call to Deputy Secretary Robson on September 28, the Iraqi Ambassador to the U.S. raised the BNL/CCC issue, indicating that Iraq was blameless and that they would be happy to help in any way to facilitate establishment of the program. Mr. Robson responded that the matter is under consideration and that a decision would be made soon. In addition, the Iraqi Minister of Trade has reportedly called in the U.S. Ambassador to express his concern about the situation.

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Creditworthiness Issues. Iraq has embarked on a program of war damage reconstruction and new development while maintaining its military spending. Iraq's FY 1989 current account deficit is \$2.1 billion. Iraq's ability to run deficits of this magnitude is being constrained by declines in foreign aid from such countries as Saudi Arabia and Kuwait. The current account deficit is expected to be \$0.9 billion in FY 1990. Iraq finances these deficits by building up arrears and rescheduling its debt to non-Arab countries.

With the exception of the UK, all other major export credit agencies are off cover for Iraq, and Eximbank is open only for short-term guarantees (with a \$200 million ceiling). CCC has remained open because Iraq has remained current with its payments, as it is considered a "preferred creditor" by Iraq.

Should Iraq fall into arrears, CCC would not have the option of rescheduling these credits to avoid losses. Iraq refuses to accept an IMF program and consequently could not use the Paris Club, the only forum in which the US government will reschedule public sector credits. (CCC losses under the credit guarantee programs are not in the 150 account.)

Iraq has pursued a policy of repaying only those creditors whose new credits are larger than the amounts due under old credits.

Other Agency Positions

Agriculture is uncomfortable with its exposure in Iraq, and wants to decrease the program size slowly, so as not to endanger US market share. State is concerned about "giving the wrong signal" to Iraq, but may support a \$400 million program as long as substantial additional amounts are expected to be available. In the long term State may not oppose a gradual ratcheting down of program size. State's position on going forward despite the BNL affair is not clear, although it appears that State is concerned about possible involvement of Iraqi officials in the kickback schemes now under investigation. Eximbank remains cautious concerning the BNL affair. Eximbank is not inclined to oppose the proposed \$1 billion FY 1990 program, but would be amenable to the tranche approach and program size herein proposed by Agriculture.

The FRS has concerns about going forward with any additional guarantees for Iraq, based on investigations by the FRS and by the US Attorney's office into the BNL affair.

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to start
Recommendations

- 4 -

and on concerns about Iraq's creditworthiness. The FRB seems ready to ask USDA to provide assurances that it has taken the BNL affair into account and still believes that the program should go forward. The FRB is also considering follow-on questions to USDA, seeking some indication that more stringent controls will be instituted to prevent future misuse of CCC guarantees.

Recommendations:

Treas oppose. any new program unless

(1) Absent USDA assurances acceptable to both Treasury and the FRB that future CCC programming will not be susceptible to the apparent deficiencies in CCC procedures revealed by the BNL affair, i.e. that procedural deficiencies are being addressed, that Treasury oppose any new programming at this time. Note: Treasury's role is advisory and we normally focus on issues of country creditworthiness.

John

Comment: We do not anticipate receiving satisfactory assurances from USDA in the near future. Should CCC not establish an FY 1990 program of any size, the Iraqis will protest strongly and could well halt service on CCC obligations. In addition, U.S. exporters with contracts for October deliveries will not be able to obtain expected guarantees.

_____ Agree _____ Disagree _____ Other

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get
the
assurance

(2) Should USDA demonstrate that future programming is not susceptible to problems brought to light by the BNL affair, that Treasury oppose USDA's \$1 billion proposal, but support an initial program size of \$400 million FY 1990, and indicate our anticipation that a supplemental \$400 million would be approved later in the year, barring unforeseen developments.

Comment: A program at the \$400 million level supplemented by an additional \$400 million later in the fiscal year, while still yielding a total program less than the Iraqis desire, is more likely to be a program that the Iraqis can live with and would increase the chances that the Iraqis will remain current on CCC obligations.

_____ Agree _____ Disagree _____ Other

Proposed CCC Program for Iraq in FY 1990 and Proposed
Additional Guarantees in FY 1989

Drafted by: RBayly/ITF ²⁶

Cleared by: JNisenson/IDW
MMuench/GI
JFall/IDW
WLMcCamey/ITF



DEPARTMENT OF THE TREASURY
WASHINGTON

ACTION

MEMORANDUM FOR ASSISTANT SECRETARY DALLARA

FROM: William E. Barreda
Deputy Assistant Secretary
Trade and Investment Policy

SUBJECT: Proposed CCC Program for Iraq in FY 1990
(and Proposed Additional Guarantees in FY 1989)

USDA has proposed a \$1 billion CCC export credit guarantee (GSM-102) program for Iraq in FY 1990. This proposal was originally scheduled for consideration at the NAC staff meeting August 15, but was delayed at the request of the FRB in light of investigations into the Banca Nazionale del Lavoro (BNL) affair. This proposal is currently scheduled for consideration at the NA staff meeting on Tuesday, September 26, 1989. The Iraqi buying team is scheduled to come to Washington October 3-4; this visit may be rescheduled for October 5-6.

As you recall, on September 12 Treasury reserved on a USDA proposal for an additional \$30 million in credit guarantees for Iraq in FY 1989, following the FRB's lead and pending assurances that the BNL affair would have no implications for CCC programs in Iraq. We have received no such assurances. If pushed for a vote, FRB staff expect to recommend that the FRB abstain or oppose the \$1 billion proposal, based on investigations by the FRB and the US Attorney's office into the BNL affair and on concerns about Iraq's creditworthiness. If/when the FRB is prepared to go forward with a program in Iraq, the Bank is likely to follow Treasury's lead in the program size it supports.

USDA has seen Iraq as a major market for agricultural exports, and has run the program at the \$1 billion level in both FY 1988 and 1989. This makes the Iraq program the second largest credit guarantee program worldwide, after Mexico. CCC's current exposure (contingent liability) for Iraq under the credit guarantee programs is \$1.7 billion, roughly one quarter (24%) of CCC's total worldwide exposure under these programs.

Last year USDA proposed and went ahead with a \$1.1 billion credit guarantee program which Treasury opposed on creditworthiness grounds. We supported a maximum program size of \$600 million, as did the Fed. We believe a \$600 million program is sufficient to cover exports of American grain and wood products -- the most politically sensitive commodities -- at the levels of the last few years.

Iraq continues to run very large current account deficits

- 2 -

it rebuilds and rearms despite the end of the war with Iran. It has financed these deficits by building up arrears and doing bilateral reschedulings on its estimated \$38 billion dollars in debt to non-Arab countries.

With the exception of the UK, all other major export credit agencies are off cover for Iraq, and Eximbank is open only for short-term guarantees (with a \$200 million ceiling). CCC has remained open because Iraq has remained current with its payments, as it is considered a "preferred creditor" by Iraq.

Should Iraq fall into arrears, CCC would not have the option of rescheduling these credits to avoid losses. Iraq refuses to accept an IMF program and consequently could not use the Paris Club, the only forum in which the US government will reschedule public sector credits. (CCC losses under the credit guarantee programs are not in the 150 account.)

Iraq has pursued a policy of repaying only those creditors whose new credits are larger than the amounts due under old credits. A credit guarantee program for Iraq in FY 1990 at the \$1 billion level proposed by USDA would not bring Iraqi payment of CCC obligations into question on these grounds. A program at the \$600 million level, as we are recommending in one option, would be less than the estimated \$700 million in payments of principal due in FY 1990, and would test the preferred creditor status of the CCC program. Similarly, looking at the longer term, if the credit guarantee program is maintained at the \$1 billion dollar level on three year terms, it is unlikely that Iraq would stop paying its CCC debts because of program size.

Agriculture is uncomfortable with its exposure in Iraq, and wants to decrease the program size slowly, so as not to endanger US market share. State is concerned about "giving the wrong signal" to Iraq, but may not oppose a gradual ratcheting down of program size. The Fed would support a smaller program in FY 1990. Eximbank is not inclined to oppose the proposed FY 1990 program, but might support a smaller program if given good reason.

Agriculture may be prepared to lobby us by phone if we support a program maximum less than that proposed.

Recommendation: That if the FRB reserves, abstains or opposes the \$1 billion program proposed for Iraq in FY 1990 on the basis on BNL investigations, Treasury follow suit. Further, that if the FRB is prepared to go forward with a program of any size for Iraq in FY 1990, Treasury support a maximum program size for Iraq in FY 1990 of \$600 million because of the poor credit performance of Iraq and the outlook for little improvement over the next several years.

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_____ Agree _____ Disagree _____ Other

USDA may also propose for consideration on September 26 \$30 million in additional FY 1989 GSM-102 guarantees to cover exports already in the pipeline. These guarantees would not substantially increase Iraq's FY 1989 credit guarantee program.

Recommendation: Similarly, that Treasury follow the FRB if the FRB abstains, reserves or opposes the proposal on the basis of BNL investigations. Further, that if the FRB is prepared to move forward on this proposal, Treasury not oppose the proposed \$30 million in additional guarantees for FY 1989 since the amount, in this context, is immaterial.

_____ Agree _____ Disagree _____ Other

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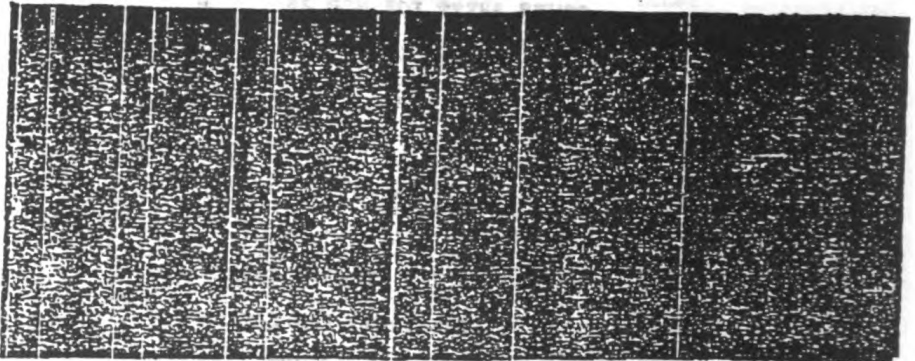
COVER SHEET FOR NSD 26

ADDRESSEES

TO: THE VICE PRESIDENT
 THE SECRETARY OF STATE
 THE SECRETARY OF THE TREASURY
 THE SECRETARY OF DEFENSE
 THE ATTORNEY GENERAL
 THE SECRETARY OF ENERGY
 THE DIRECTOR OF THE OFFICE OF MANAGEMENT AND
 BUDGET
 THE ASSISTANT TO THE PRESIDENT FOR NATIONAL
 SECURITY AFFAIRS
 THE DIRECTOR OF CENTRAL INTELLIGENCE
 THE CHAIRMAN OF THE JOINT CHIEFS OF STAFF
 THE DIRECTOR, UNITED STATES ARMS CONTROL AND
 DISARMAMENT AGENCY
 THE DIRECTOR, UNITED STATES INFORMATION AGENCY

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Iraq

Normal relations between the United States and Iraq would serve our longer-term interests and promote stability in both the Gulf and the Middle East. The United States Government should propose economic and political incentives for Iraq to moderate its behavior and to increase our influence with Iraq. At the same time, the Iraqi leadership must understand that any illegal use of chemical and/or biological weapons will lead to economic and political sanctions, for which we would seek the broadest possible support from our allies and friends. Any breach by Iraq of IAEA safeguards in its nuclear program will result in a similar response. Human rights considerations should continue to be an important element in our policy toward Iraq. In addition, Iraq should be urged to cease its meddling in external affairs, such as in Lebanon, and be encouraged to play a constructive role in negotiating a settlement with Iran and cooperating in the Middle East peace process.

We should pursue, and seek to facilitate, opportunities for U.S. firms to participate in the reconstruction of the Iraqi economy, particularly in the energy area, where they do not conflict with our non-proliferation and other significant objectives. Also, as a means of developing access to and influence with the Iraqi defense establishment, the United States should consider sales of non-lethal forms of military assistance, e.g., training courses and medical exchanges, on a case by case basis.

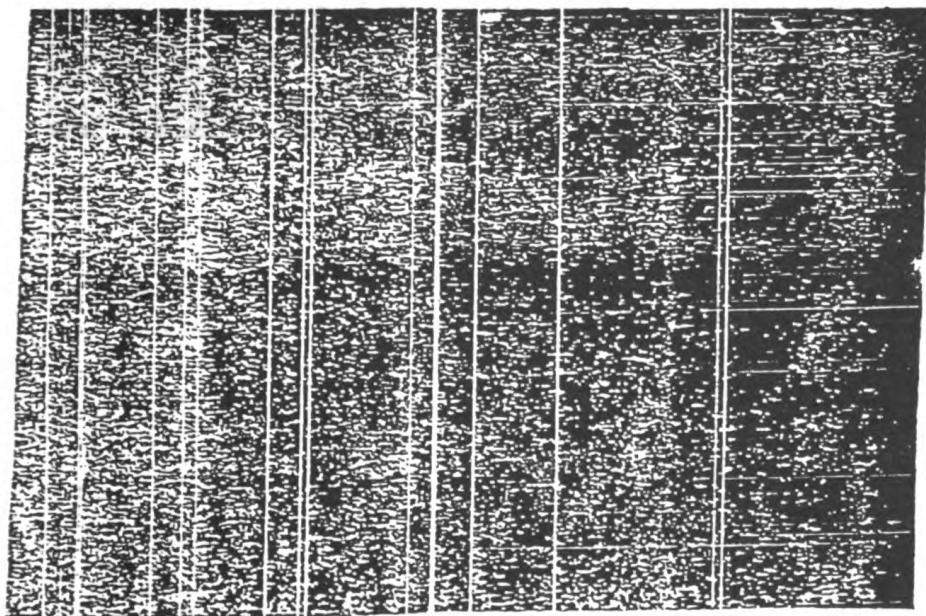
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October 1, 1950

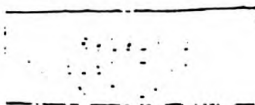
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U.S. Policy Toward the Persian Gulf

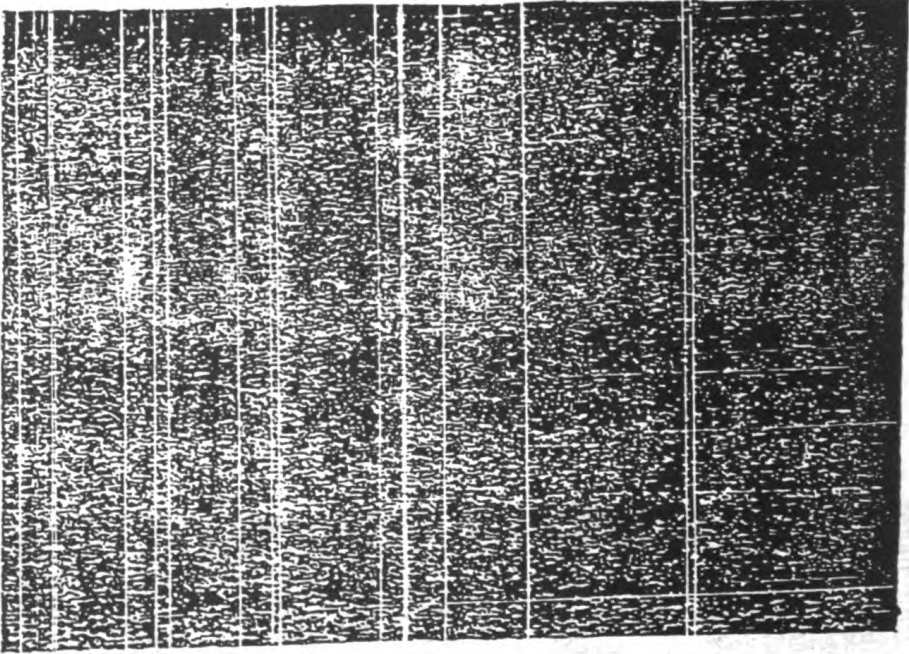
Access to Persian Gulf oil and the security of key friendly states in the area are vital to U.S. national security. The United States remains committed to defend its vital interests in the region, if necessary and appropriate through the use of U.S. military force, against the Soviet Union or any other regional power with interests inimical to our own. The United States also remains committed to support the individual and collective self-defense of friendly countries in the area to enable them to play a more active role in their own defense and thereby reduce the necessity for unilateral U.S. military intervention. The United States also will encourage the effective support and participation of our Western allies and Japan to promote our mutual interests in the Persian Gulf region.



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3
GEORGE BUSH

UNCLASSIFIED

to: _____ Department
of the Treasury

room: _____ date: 10-2-89 Office of the
Assistant Secretary for
International Affairs

Office of
Trade Finance

Ted Truman talked to John Niehuss, in CHD's absence, about the CCC's Iraq program in light of the BNL affair. Truman says there is good reason to believe there are serious irregularities in CCC procedures. He feels the credit guarantee program for Iraq should not go forward at this time.



Director
W. L. McCamey

room 4126
phone 566-5757

FOR NATIONAL ADVISORY COUNCIL
USE ONLY

NATIONAL ADVISORY COUNCIL
STAFF COMMITTEE

MINUTES
89-40
October 3, 1989

[REDACTED] (Chairman), Treasury Department
[REDACTED] (Secretary)
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED], Department of State

[REDACTED] Agency for International Development

[REDACTED], Federal Reserve Board
[REDACTED]

[REDACTED], Export-Import Bank

[REDACTED], Department of Agriculture
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED], U.S. Trade Representative

[REDACTED], Department of Commerce

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NAC MEETING #7-40
October 3, 1988
Page 1

2. AGRICULTURAL EXPORT CREDIT SALES

- (a) Iraq - \$1.000 million - GSM-102 (FY 1990 program)
(NAC Doc. 89-74)

The Agriculture representative said that USDA had dropped its request (NAC Doc. 89-113) for \$30 million in additional guarantee authority for Iraq for FY 1989, action on which had been deferred in response to the NAC agencies' concerns regarding the Banca Nazionale Del Lavoro (BNL) banking scandal (see minutes of NAC meeting 89-37, September 12, 1989).

He indicated, however, that his agency was requesting action on the current proposal, first advanced in a letter to the NAC from USDA dated August 10, 1989 (NAC Doc. 89-74), for one billion dollars in GSM-102 guarantees for Iraq in FY 1990. He contended that action was now needed because: 1) a number of U.S. exporters had valid contracts and were waiting to register with the CCC; 2) a high-level Iraqi delegation would be coming to Washington in the following week to discuss agricultural purchases for the coming year; and 3) the CCC auditor in Atlanta had not found any evidence of wrongdoing by the Iraqis in the BNL scandal. The Agriculture representative summed up by stating that his agency felt that one billion dollars was an appropriate level of guarantee authority for Iraq; Iraq had thus far shown itself to be a good risk; and lack of timely, positive action on this program would induce the Iraqis to make their agricultural purchases elsewhere.

The Federal Reserve representative said that, in addition to concerns regarding the BNL scandal, the Fed had reservations with regard to Iraq's overall creditworthiness. In this connection, he noted that Iraq had continued undertaking selective, unilateral reschedulings with its official creditors. Moreover, despite increases in oil revenues since the end of the Iran-Iraq war, Iraq's foreign exchange earnings were still insufficient for

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NAC MEETING 89-40
October 3, 1988
Page 2

it to service its external debts promptly and fully. He also raised the issue of whether the CCC should commit such a large proportion of its guarantee authority to one buyer. He contended that these questions, together with the still-unfolding BNL scandal, suggested that USDA should adopt a "wait and see" attitude before going ahead with a program of the magnitude proposed.

Regarding the BNL affair, the Federal Reserve representative mentioned several allegations which had emerged from investigations into it to the effect that: 1) certain contracts issued on BNL letters of credit with CCC guarantees contained prices that were two to three times greater than market prices; 2) some contracts were for volumes of seed greater than the country as a whole could utilize; 3) in some cases, prices were so low as to indicate the grain involved was not of U.S. origin; and 4) Iraqi-BNL kickbacks might have occurred. He concluded by stating that, given these allegations, the Federal Reserve could neither endorse nor approve a CCC guarantee program for Iraq.

The Treasury representative stated that she, too, was aware of some of these allegations and asked what safeguards USDA would take to ensure that 1) items shipped under CCC guarantees were of U.S. origin and 2) sales were not made at inflated prices. She then questioned whether USDA had adequate knowledge of the progress of the Federal Reserve and Justice Department BNL investigations and whether USDA was taking any other steps to safeguard the integrity of the CCC guarantee program in light of the BNL revelations. Finally, she asked if CCC was concerned that parties under suspicion in the BNL investigations would benefit from any further CCC guarantees.

The Agriculture representative stated that some of the questions raised were peripheral to the general NAC review and the topic of Iraq's creditworthiness in particular. He noted that the CCC only guaranteed payments by foreign banks, and was not involved in individual contract negotiations. Thus, the two principal issues, as he saw them, involved overpricing and U.S. content. On the first, he said that his agency assumed that a buyer got the best price it could; Iraq paid higher than market prices as a result of its restricted access to credit, generally tight markets, and the high quality of U.S. products.

Regarding the second question, he stated that the CCC required that all commodities covered under its guarantee programs be 100 percent U.S.-origin. He said that several product lines that might have included goods with foreign content

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Page 3

had been declared ineligible for coverage under the guarantee programs -- even though this action penalized U.S. exporters. He agreed that there had been occasional problems regarding U.S. content in the Iraqi guarantee program, but noted that USDA had added to the CCC's compliance and oversight staff in this area. Finally, he said that, for technical reasons, there was a "gray area" with regard to U.S. content and gave the example of seed exports to illustrate this.

The State representative said that he had reserved his position on the earlier Iraq proposal out of deference to the concerns of the Federal Reserve and Treasury. However, he said that Iraq had great strategic importance to the U.S. -- as the size of the proposed FY 1990 program would indicate. He added that, while he understood the concerns about Iraq's medium-term creditworthiness, he did not see any financial difficulties looming where CCC guarantees would be called, and therefore recommended going ahead with a CCC program for Iraq at this time.

The Federal Reserve representative stated that BNL, by not honoring fraudulently issued letters of credit, could cause financing problems for Iraq, putting at risk Iraq's debt to the CCC.

The Agriculture representative said that the CCC felt that Iraq would repay its outstanding loans with BNL as scheduled. The

risk, he said, was that BNL would not pay the U.S. exporters, in which case Iraq would have done nothing wrong. The Federal Reserve representative responded that, because money is fungible, if Iraq lost its BNL lines of credit, it would automatically become less creditworthy.

In response to a question from the Treasury representative, the Agriculture representative said that the Iraqis had said that BNL would not be involved in a FY 1990 CCC program.

The Treasury desk officer for Iraq, noting that the CCC and the U.S. and U.K. export financing agencies were the only official credit institutions open in Iraq, said that Iraq's international creditworthiness was very low. (The Eximbank representative interjected that, despite short-term repayment problems, Eximbank considered Iraq creditworthy.) The Treasury desk officer stated that although Iraq's oil earnings had risen from \$12 billion in 1988 to a projected \$14 billion in 1989, its military expenditures had also increased. He added that Iraqi demands that BNL honor its fraudulently issued letters of credit

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were evidence of how desperate Iraq was for foreign exchange or credit. He continued by saying that it was well known in the international financial community that Iraq only paid those creditors from which it received new credits and, viewed in this manner, the CCC could be contributing to a "Ponzi-type" scheme. Finally, he said that Iraq's refusal to accept an IMF program or to reschedule its debts within the framework of the Paris Club meant that if Iraq did default on its CCC guarantees, the CCC could not reschedule them because the U.S. Government did not engage in reschedulings outside of a multilateral framework.

The Treasury representative, noting that Iraq had \$700 million in principal and \$60-70 million in interest due on CCC-guaranteed loans in FY 1990, asked the State representative for his assessment of the political risk of Iraq's non-payment. The State representative responded that his agency would not be arguing for a large program for Iraq if it felt that there was a substantial political risk of Iraqi non-payment. He added that it was unrealistic to wait for an extended period, until the legal case involving BNL had been settled, before approving any new credits for Iraq, and that a program should be approved in the near future to take care of both domestic exporters and Iraq's import needs.

The Federal Reserve representative stated that it would be risky to approve new loans in order to protect the repayment of old loans. He urged that agencies have their legal counsels contact the U.S. Attorney's office in Atlanta to get the current status of the investigation prior to making any decision.

The Treasury attorney stated that she had spoken at length with the Assistant United States Attorney (AUSA) in Atlanta who is in charge of the BNL investigation. From the AUSA, the Treasury attorney understood that indictments relating to the BNL affair would definitely be sought. The AUSA believed that the Iraqis must have known that the BNL letters of credit were improperly issued, as they lacked proper authorizing signatures and were at rates close to LIBOR, which would be inconsistent with Iraq's general lack of creditworthiness. The AUSA had also advised that there was evidence -- although it was only preliminary at this time -- of Iraqi knowledge of, or complicity with, kickback schemes. In response to an Agriculture representative's statement that the Iraqis took the best rates available, the Federal Reserve representative said they should have been more suspicious if the rates were too good.

The Eximbank representative stated that her agency had done

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Page 5

\$50 million in business with BNL in the past, and that, while Eximbank was closely monitoring the program, it had not suspended dealings with BNL and would continue to do business with them.

The State representative, noting that the sense of the group was against immediate approval of the proposed \$1 billion program, asked if USDA had an alternate proposal. The Agriculture representative responded that he was willing to ask for a first tranche of \$400 million for Iraq's FY 1990 GSM-102 program.

In response to a question from the Treasury desk officer regarding the feasibility of the Iraqis delaying their buying mission, the Agriculture representative said that Iraq had to make some buying decisions in the near future. He noted further that there was no certainty as to when the BNL situation would finally be resolved and that Iraq could go elsewhere to meet its food import needs.

The State representative suggested that the following conditions be attached to the request for \$400 million: 1) the \$400 million program should not rule out additional programs for FY 1990; 2) the NAC should receive assurances that USDA has enhanced its monitoring of the Iraq program; and 3) USDA should inform the NAC if sufficient evidence of wrongdoing was discovered.

In response to a question from the Treasury representative regarding program monitoring, the Agriculture representative again said that USDA had increased its compliance staff and the GAO was also closely monitoring the program.

The Commerce representative said he was inclined to give the benefit of the doubt to U.S. exporters and was in favor of the proposed \$400 million program. However, he stated concerns with regard to Iraq's creditworthiness, its large external debt, and the fact that for the past several years 20 percent of USDA GSM-102 guarantee authority had been committed to one country. Finally, he requested, so as to avoid any appearances of impropriety, assurances from the CCC that BNL would not be involved in any new guarantees.

The Agriculture representative, in response to a question from the USTR representative, said that the product coverage under the FY 1990 program would be similar to that for FY 1989, except for those commodities which had been identified as having difficulties meeting the 100 percent U.S. content rule, i.e.,

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juice concentrates, sugar, and tobacco. The terms would be 12 months for plywood, 720 days for leather, and up to three years for all other commodities.

In response to a further question from the USTR representative regarding malfeasance on the part of U.S. exporters, the Agriculture representative said that if it could be proved that U.S. exporters had been engaged in improprieties they would be barred from the program and the case forwarded to the Commerce Department for prosecution under the Corrupt Practices Act.

The Commerce representative reiterated his view that USDA was courting disaster if it did not ban BNL from the FY 1990 program. The Agriculture representative replied that his agency had already asked Iraq for assurances that BNL would not be used in conjunction with the FY 1990 program. He pointed out, however, that financing agreements are ultimately worked out between the foreign and financing banks.

The Federal Reserve representative suggested that the question of a \$400 million FY 1990 program be brought to the attention of the NAC Alternates so that political-level officials could be sensitized to the possible problems associated with it, and that agencies should inquire from their Alternates whether they would want to call a NAC Alternates meeting to discuss this matter further.

In a roundtable discussion of the proposed \$400 million GSM-102 FY 1990 program:

- The AID representative stated that since AID was not involved in Iraq, her agency would associate itself with the foreign policy position of the State Department.
- The Eximbank representative, noting that Eximbank does have a small line of credit open in Iraq, said that her agency was not opposed to a CCC line in Iraq, given the proposed reduction in its size.
- The USTR representative said that he, too, would wish to err on the side of the U.S. exporters and felt his agency could support a smaller program, given assurances that BNL would not be involved.

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NAC MEETING 89-40
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Page 7

- The Treasury representative said that she could not support any size program in Iraq at the present time unless assurances were given that the problems brought to light by the BNL affair were being addressed.
- The Federal Reserve representative said that, although he thought any decision on this matter should be cleared at the political level, he would not demand an Alternates meeting but would abide by a NAC consensus on the need for such a meeting. He indicated that he wished to reserve his agency's position on the \$400 million proposal.

The Agriculture representative stated he would resubmit a letter reflecting the consensus of the meeting and requesting NAC advice on a \$400 million FY 1990 GSM-102 guarantee program for Iraq. The letter would contain a description of the "state-of-play" in the BNL situation. He said the \$400 million would be a discrete amount but withheld the option of proposing additional guarantees at a later date.

Note: After the meeting, USDA submitted a proposal for \$400 million in credit guarantees for Iraq in FY 1990 (NAC Doc. 89-131).

Council approval of the program was obtained (Treasury and the Federal Reserve opposed) on the basis of votes cast by Staff Committee members on behalf of their principals in a telephone poll (NAC Action 89-188, October 3, 1989). None of the agencies polled expressed support for a NAC Alternates meeting on this issue.

Subsequently, the Treasury representative requested that the following comment be added to the minutes: 'In reviewing USDA's revised proposal, Treasury is concerned that waiting for "definitive proof" may be waiting too long, and suggests that it might be appropriate to take steps to maintain the integrity of USDA's export credit guarantee programs before "definitive proof" has been obtained.'



United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D.C.
20250

OCT 04 1989

Mr. Allen Clapp
National Advisory Council on International
Monetary and Financial Policies
Department of the Treasury
Washington, D.C. 20220

file Iraq
FY 1989
GSM-102 (5)

Dear Mr. Clapp:

On August 10, 1989 I sent a letter to the NAC proposing a \$1 billion Export Credit Guarantee Program (GSM-102) for Iraq in FY 1990. On September 12, 1989, at NAC meeting 89-37, the members reviewed USDA's proposal for \$30 million in additional FY 1989 credits for Iraq and recommended that both the FY 1989 and FY 1990 proposals be deferred until USDA and the members had more information concerning the situation involving CCC's guarantee programs for Iraq and the ~~Atlanta~~ branch of the Banca Nazionale del Lavoro (BNL). We did not revisit the issue of additional FY 1989 credits. On October 3, 1989 the members reviewed our FY 1990 proposal and reiterated their concerns regarding the BNL situation, as well as questioning the prudence of an additional \$1 billion CCC exposure at this time.

Pursuant to the advice noted above, USDA has revised its initial proposal, and we now are considering coverage of \$400 million in GSM-102 guarantees for Iraq in FY 1990 for various agricultural commodities.

As I mentioned at the October 3 meeting, USDA is in daily contact with our own auditors, who are in Atlanta observing the ~~investigation~~, and as of this date we do not have cause for not proceeding with some FY 1990 program for Iraq in order to keep GSM-102 sales and deliveries going in October. We appreciate the concerns of the member agencies in this matter, and we assure them that we will continue to monitor the ~~BNL~~ situation in particular and the operations of the Iraq GSM-102 program in general. Should we obtain definitive proof of improper behavior on the part of Iraqi officials/importers/banks which would negatively affect the integrity of CCC's programs, we would take all appropriate steps to maintain the integrity of the program and to keep NAC members informed of our discoveries/actions. We intend to express the NAC's concerns in the strongest possible terms during our October 5-6 credit consultations in Washington with Iraqi officials. In addition, based on comments we have received from the Iraqis, we do not expect at this time that ~~BNL~~ will participate in Iraq's FY 1990 program.

I should note that the above comments apply not solely to Iraq. We seek to ensure program compliance in all GSM-102 programs in countries other than Iraq. We reserve the right to propose additional GSM-102 credits for Iraq later in the fiscal year.

Mr. Allen E. Clapp

2

We now are proposing the following allocation of GSM-102 export credit guarantees for Iraq:

Amount:	\$400 million.
Purpose:	For credit guarantees covering credit sales of U.S. agricultural commodities secured by foreign bank letters of credit.
Terms:	Up to thirty-six (36) month terms, except as indicated below.
Export Authorization Period:	Through September 30, 1990.

Regarding commodity coverage, some commodities being considered for coverage lie outside Chapters 1-24. These are cotton, hides, and skins, leather, solid wood products (lumber and wood panel products) and wood pulp. We are considering limiting coverage to 12 months for wood panel products and 720 days for leather, with three-year terms for all other commodities. This would continue the term existing in FY 1989.

We request the views of the National Advisory Council on International Monetary and Financial Policies.

Sincerely,



Kerry E. Reynolds
Director
Program Development Division



DEPARTMENT OF THE TREASURY
WASHINGTON

INFORMATION

MEMORANDUM FOR ASSISTANT SECRETARY DALLARA

FROM: William E. Barreda
Deputy Assistant Secretary
Trade and Investment Policy

SUBJECT: CCC Credit Guarantees for Iraq

On Tuesday, October 3, MAC agencies voted 5 to 2 to support a modified USDA proposal to provide \$400 million in GSM-102 (up to three years) credit guarantees for Iraq in FY 1990. Treasury and the FRB opposed extending the guarantees at this time in light of the BNL affair. State was particularly forceful in arguing that programming should go forward.

In our view, USDA was unable to offer adequate assurances that problems in CCC procedures brought to light by the BNL affair are being addressed. Although USDA has taken steps to ensure that their guarantees support only US agricultural exports, they indicated that pricing (and thus price inflation and kickback issues) are normally beyond their purview. USDA does not feel it can discontinue dealings with the Iraqis, exporters or BNL on the basis of unproved allegations.

In response to various agency requests, USDA did promise that (i) USDA would encourage Iraq not to use BNL financing; (ii) USDA would monitor the BNL situation carefully, and bring back to the MAC any developments in the investigation and/or the Iraq program of note; and (iii) the \$400 million would not be presented to the Iraqis as a tranche. (This last is so as not to prejudice whether there will be additional programming for Iraq this year and, if so, whether the additional amount will be limited to \$400 million.)

During the meeting, the FRB representative raised the possibility of a MAC Alternates meeting. The FRB has not pursued the question today (October 4). Since other agency positions appear to be firm, and Treasury is in the minority, it does not seem that a MAC Alternates meeting would serve any real purpose.

Talks with the Iraqi buying mission will be held in Washington tomorrow and Friday.

cc: Messrs. Fall, Folsom and Niehuss

*Met with
No other agency has submitted
a MAC Alternates meeting.*

*The CRS has deferred its
decision on whether to
ask for a MAC Alternates
meeting, pending review of
USDA's revised proposal.
in the form of a
the points in para 3.*



United States Department of State

Washington, D. C. 20520

 CS-
 [Signature]

 BRIEFING MEMORANDUM
 8/8

October 4, 1989

To: The Secretary

From: NEA - John H. Kelly *248* **8722915**

Subject: Meeting with Iraqi Foreign Minister Tariq Aziz
Harry Clay Room
Friday, October 4
2:00 PM

I. PURPOSE

To meet Aziz and set the basis for the Administration's approach to U.S.-Iraqi relations.

II. Key Points

o U.S.-Iraqi Relations

- Our interests argue for a strengthened relationship with Iraq, the strongest military power in the Persian Gulf. Iraqi irritation with the Soviets over arms sales to Iran may present an opportunity.
- o Iraq is one of the most promising export markets in the world; U.S. companies are currently bidding on \$12 billion in contracts. The Iraqis want to buy American if they can.
- o There is no evidence of Iraqi chemical weapons use since August, 1988. Iraq has participated in international CW conferences this year and has joined the CD in Geneva as an observer.
- o Other concerns: Iraq has missile programs, is developing a BW capability, ~~and is developing an infrastructure for a nuclear weapons program.~~ Iraq's programs are aggressive, and they will pursue them no matter what we say. A nuclear weapons capability is at least 5-10 years away.

 SECRET
 DECL: OADR

DEPARTMENT OF STATE		IS/PFC/CDR <i>248</i> Date: <i>2/1/93</i>
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() EXCISE	() DECLASSIFY	EO Citations
() DENY	IN PART	
() DELETE Non-Responsive Info		TO Authority to
NSA Exemptions		() CLASSIFY as
SA Exemptions		() DOWNGRADE TO

- 2 -

- Iraq has taken steps to improve relations with the U.S.
 - o In March Iraq settled claims for wrongful death of 37 sailors in the 1987 attack on the USS Stark. We need to begin talks on personal injury and USQ claims (mostly for repairs to the Stark).
 - o We are working on a human rights dialogue, to sustain a broader relationship. Ambassador Schifter met MFA International Organizations director Riyadh al-Qaydi September 29.
- But Asia believes the Administration is taking Iraq for granted now that the war is over, and will cite problems with the CCC program and difficulties in getting U.S. technology and credit as evidence that the U.S. is not serious about improving relations.
 - o We are cautious in licensing because of proliferation concerns.
 - o Iraq badly wants Exim medium-term credit. Exim believes Iraq is a bad credit risk. Bob Kimmitt told Exim we will not now overrule this judgment on political grounds, but may want to act later.
- USDA's CCC program has run into problems because of a scandal surrounding lending by the Atlanta branch of the Italian government-owned Banca Nazionale del Lavoro (BNL). Of \$4 billion in unauthorized BNL loans, about \$3 billion went to Iraq.
 - o Financial press coverage has focussed on possible military uses of small amounts of goods shipped under BNL L/Cs, but the largest component was for food exports guaranteed by CCC.
 - o Concerns about the scandal led Treasury and the Federal Reserve to hold up the FY 90 protocol for the CCC program, originally set at 1 billion. On October 3 the MAC voted to go ahead with a \$400 million interim program. State supported this.
 - o Iraq maintains it has nothing to do with the BNL scandal, and that since it is current with its CCC payments the program should not be affected.
- o Peace Talks with Iran
 - Talks are stalemated. Militarily weaker Iran will not engage in direct talks, exchange POWs, clear the Shatt

- 3 -

al-Arab waterway, or allow Iraq free navigation in the Gulf until Iraq withdraws from Iranian territory and drops demands for full sovereignty over the Shatt.

- With Tom Pickering October 2 Aziz urged the U.S. to push Perez into a "two-stage" approach. The shuttle diplomacy by the SYG's envoy Eliasson scheduled for later this month would only be Phase 1, to "test commitment." Aziz then wants to move to Phase 2, direct talks, to work out a peace package -- which Aziz said must include full sovereignty over the Shatt.
- In the September 29 Security Council meeting to renew the Iran-Iraq military observer group's mandate the U.S. led in calling for an early exchange of all POWs. Since Iran uses the POWs as leverage against Iraq, the Iraqis were pleased by our position.
- There is little chance the ceasefire will break down. Neither side stands to benefit from renewed fighting.

o Lebanon

- Iraq has been Aoun's major arms supplier as a way of getting back at its arch-enemy Syria. It has influence on Christian decision-making.
- Iraq has criticized the Arab League Tripartite Commission's 7-Point Plan, but pledged to end arms deliveries to Aoun. Iraq will watch what Syria does in Lebanon and will not want its hands tied by an open-ended commitment to the AL on arms supplies.

o Israel

- Aziz reads our actions on CCC, Exim, etc. as inspired by a U.S. view that Iraq is a threat to Israel.
- Israel views Iraq's army, proliferation programs, and alliance with Jordan and Egypt as a real threat, and was especially concerned over joint Jordanian-Iraqi air exercises this summer near the Israeli border.
- For its part, Iraq fears an Israeli attack similar to the June, 1981 air raid on a nuclear reactor Israel linked to a nuclear weapons program.
- Iraq has stressed its moderation on Arab-Israeli issues and willingness to accept any solution the PLO accepts.

~~SECRET~~

- 4 -

III. PARTICIPANTS**U.S.**

The Secretary
 Under Secretary Bartholomew
 PA Assistant Secretary Tutwiler
 S/P Director Ross
 NEA Acting Assistant Secretary
 Covey
 NEA DAS Gnehm

Iraq

Foreign Minister Tariq Azis
 Appointed Ambassador
 Mohamed Sadeq Al-Nashat
 (has not yet presented
 credentials to the
 President)
 Notetaker

IV. PRESS COVERAGE

- Photo Opportunity

V. SEQUENCE OF EVENTS

- Azis likes to lecture; it would be advisable for the Secretary, in greeting him, to lead off with a discussion of bilateral relations. Azis will then reply and probably raise the U.N. talks.

Attachments:

- Tab 1 - Talking Points
- Tab 2 - Biographic Information on Tariq Azis

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TALKING POINTSU.S.-IRAQI RELATIONS

-- We value our relationship with Iraq. ~~We want to see it~~ broaden and deepen across the board. I look forward to a close working relationship with you.

-- Regional peace and stability are in our mutual interests. We must work together to ensure stability in the Gulf.

-- As you know, the President has made eradication of chemical weapons a top priority of this Administration. I'm pleased that since that time you have attended the Paris and Canberra CW conferences, and joined the CD talks in Geneva as an observer.

-- In addition, The U.S. is concerned about other non-conventional weapons proliferation -- nuclear, biological, and missiles. They are a major concern for both the Administration and Congress.

-- I am pleased we have started talking seriously to each other on human rights. I hope the dialogue will lead to positive changes in Iraq that can help us sustain a closer U.S.-Iraq relationship.

-- We are very pleased with the settlement of the Stark wrongful death claims. That has been a positive factor in our bilateral relationship. Abe Sofeer and your legal advisor did a professional job.

-- I hope we can both now turn quickly to the personal injuries and damage claims so that we can close the book on this incident.

-- [If Axis raises CCC guarantees and the BNL scandal:]

The operation of the CCC program has been of benefit to both our countries, and I would like to see it continue. Our Treasury Department and Federal Reserve Bank have real concerns about the BNL affair. We are sure you will want to cooperate with their investigations.

~~SECRET~~

DECL: OADR

- 2 -

PEACE TALKS WITH IRAN

-- We share your frustration with the slow pace of talks and the Iranian tactic of holding POWs hostage. As we have said, both sides are obliged under international law -- apart from negotiations -- to repatriate all POWs immediately.

-- As you know, we took the lead in the Security Council last week in calling for repatriation of all POWs. This is an issue of principle for us.

-- We do, however, have concerns about Iraq's approach to the negotiations. We hope you will work more closely with the Secretary General and his envoy Eliassen to get talks re-started soon. If talks are to succeed both sides will have to show flexibility.

PLO/UN/PEACE PROCESS

-- Recognizing that Iraq's position differs from ours, let me underscore our strong opposition to giving the PLO rights and privileges in the UN exceeding its status as an observer organization. We are very disappointed that the PLO has decided to pursue this matter.

-- We hope you will urge the PLO towards moderation at the upcoming meeting in Baghdad of the Palestine Central Council.

-- We urge Iraq to endorse President Mubarak's 10-Point Plan as a basis for negotiations. Jordan, which is also a member of the Arab Cooperation Council, has already endorsed it.

LEBANON

-- We support the Arab League's seven point peace plan, which provides a constructive basis on which all parties can engage in a political process leading to the peaceful resolution of Lebanon's problems.

-- We are encouraged by the meeting of Lebanon's Parliament in Taif. We hope this will be the start of national reconciliation.

-- We all desire a full Syrian withdrawal, but it will not be accomplished by force.

-- We expect Iraq to cooperate with the Arab League's effort. This is the best chance Lebanon has for peace.

~~SECRET~~

MEMO OF CONVERSATION	— phone	Time	Date
	— visit	3:00 PM	October 5, 1989
	XX conference	File No.	
	— other	At-720-2	
Subject: BANCA NAZIONALE DEL LAVORO Atlanta, GA			
Talked with:	Office	Telephone No.	
See below:	FAS, OGC, OIG		
Reason for Talk:			
Brief FAS Officials on OIG investigation due to ongoing credit guarantee negotiations with Iraqi officials.			
Details:			

Attending the meeting were: FAS Administrator Rolland E. Anderson, Jr., General Sales Manager & Associate Administrator F. Paul Dickerson, Assistant General Sales Manager & Assistant Administrator Christopher Goldthwait, FAS official Glen Whitman, FAS Baghdad Ag. Counselor Larry Panasuk, CCC Treasurer Jim Little, CCC Assistant Treasurer Sally Nunn, Associate General Counsel Thomas V. Conway, OGC Attorney Kevin Brosch, CCC Operations Division Director Lawrence McElvain, OIG Special Agent Art Wade and OIG Staff Special Agent Lynn Odenbach.

The purpose of the meeting was to brief the Administrator, FAS regarding the ongoing OIG investigation of BANCA NAZIONALE DEL LAVORO and the CCC credit guarantee sales to Iraq. Mr. Anderson explained that FAS was currently negotiating CCC credit guarantees with Iraqi officials, but negotiations had been called off until October 5, 1989, in order that he and other FAS officials could be briefed regarding our investigation. FAS was concerned about extending a line of credit to Iraq but did not have sufficient evidence to not announce a program this year. Mr. Anderson further explained that pursuant to the advice of NAC, FAS was willing to extend \$400 million in credit guarantees to Iraq on the condition that BANCA NAZIONALE DEL LAVORO not be used. He said that the Iraqis had received one billion in credit guarantees last year and were here expecting to receive 1.2 billion this year. At the time of our meeting the Iraqi officials had not accepted the 400 million offer and had asked FAS why the guarantees had been reduced. Mr. Anderson explained that the Iraqi officials did not understand our internal procedures and concerns and wanted proof of the allegations. The Iraqi officials said if we could show proof Iraqis were involved in the payment or receipt of kickbacks they would go after those people in their country. The Iraqi officials freely admitted to FAS officials that they required "after sales services" on their contracts. FAS was concerned that historically Iraq has only paid the U.S. and Great Britain and if they (FAS) did not announce the program Iraq may not continue to pay the U.S.

Tom Conway said he had given the FAS Administrator and senior advisers some details provided by the AUSA and later the OIG. With that introduction Agent Wade provided a summary of the information presented at the earlier meeting. Numerous questions were fielded regarding the type of evidence, type of

Source: USOA/I.G.

005553

kickbacks, and other suspected violations noted to date. The answers given were general in that, no people or companies were named, nor were the exact amounts of money mentioned. Agent Wade did explain various situations and offenses uncovered thus far, citing the quality and amount of evidence on each incident.

The situation involving the exporter who was pressured to provide "after sales service", in the form of trucks/trailers was discussed at some length by various people present.

The concerns expressed by the AUSA were explained to the group. [A summary of these concerns was provided to AIG/I Craig Beauchamp, Deputy AIG/I Jeff Rush, PID Director David Dickson, Deputy AIG/A Dick Long, and IACP&S and Education Division Director Raymond Poland following this meeting on October 5, 1989 (copy attached).]

At one point R. E. Anderson asked Agent Wade what he would do if he were in Anderson's place. Agent Wade told them that his decision would involve an offer of funding at some level, but far below what the Iraqis had expected, with additional requirements to hopefully improve compliance with the regulations. The strengthened requirements were those described in the attached paper.

Larry McElvain stated insuring compliance of some of the requirements would be impossible, since the Iraqis would be the only ones in position to do that for their people. It was explained that in the context of this discussion compliance was not the issue, rather to formally put the Iraqis on notice that they could not demand after sales service, and could not barter or sell the commodities to other countries.

The OIG Agents and most of the other attending the earlier meeting were excused, with the FAS senior staff remaining behind. No decisions were made while the OIG were present.

Decision or Result:

SIGNATURE:

DATE

A:-720-2

On October 5, 1989, in a meeting with FAS Administrator Rolland E. Anderson, Jr., Paul Dickerson, FAS Associate Administrator and General Sales Manager, Glenn Whitman, Chris Goldwaith, Thomas V. Conway and other advisors, OIG Special Agents were asked for input regarding the ongoing negotiations with the Iraqi officials seeking CCC guarantees for FY 90. As part of the conversation concerns raised by the Assistant U.S. Attorney, Northern District of Georgia were discussed/explained. The AUSA had specifically wanted CCC representatives to be aware of a need for additional safeguards or checks in the event any guarantees were extended to the Iraqis.

The suggested safeguards involved: 1) the prices charged were consistent with the market for said commodities; 2) the exported commodities were of the type and amount appearing on the guarantee; 3) the commodities actually arrive in Iraq for use in compliance with the regulation; 4) the commodity be of U.S. origin; and 5) prohibit the collection of additional fees now referred to as after sales services.

005855

MEMO OF CONVERSATION	— phone	Time	Date
	— visit	1:00 PM	October 5, 1969
	XX conference	File No.	
	— other	At-720-2	
Subject: BANCA NAZIONALE DEL LAVORO Atlanta, GA			
Talked with:	Office	Telephone No.	
See below:	FAS, OGC, OIG		
Reason for Talk: Brief FAS and OGC on case in order to answer questions for AUSA			

Details:

Attending the meeting were: CCC Treasurer Jim Little, CCC Assistant Treasurer Sally Nunn, Associate General Counsel Thomas V. Conway, OGC Attorney Kevin Brosch, CCC Operations Division Director Lawrence McElvain, OIG Special Agent Art Wade and OIG Staff Special Agent Lynn Odenbach.

The purpose of this meeting was to brief FAS, OGC and CCC officials concerning the subject investigation. Those present would then be better prepared to answer questions from the prosecutor and investigators. Agent Wade explained in general terms the banking system at Lavoro in Atlanta (e.g. the rates charged to Iraq, the signature requirements, the amount of CCC funds handled through Atlanta, the history of how the bank borrowed funds, and concerns involving Letters of Credit).

Agent Wade also discussed the issue of kickbacks and disclosed that based on insiders information and record examination it was believed that certain banking officials received six figure kickbacks from exporters who did business with CCC. Agent Wade also disclosed that he had certain information which indicated that bank officials in Atlanta may have received kickbacks from Iraqi officials amounting to tens of millions of dollars. Other information has indicated that certain companies may have had to pay a kickback to Iraqi officials in order to continue business in the form of "after sales services."

Larry McElvain asked what the motive might be for an exporter to inflate prices. Agent Wade explained that due to the early stage of the investigation he did not have that information, but he could say that some exporters, with close ties to Lavoro, have shown incredible growth under the program.

Agent Wade then provided questions based on concerns of AUSA Gail McLenzie to the FAS and OGC officials in which she requested a written response.

Agent Wade discussed the concerns that the commodities were not arriving in the country for the intended use. Agent Wade said that few records existed to show delivery of commodities to Iraq. The only records for ocean shipments reviewed to date list the destination as ports in Turkey and Jordan. The bank representatives said they were told the Iraqi state agency controlling land transportation arranged for transport from the ports to Iraq. However, no

DFI

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documents were seen in the records showing independent verification that the shipments went to Iraq.

Agent Wade explained that products besides agricultural commodities were funded by Lavoro. These included machinery and equipment suspected of having dual use, civilian and military. In some instances exporters who sold commodities under the CCC program also sold non-agricultural products. At this stage limited descriptions of the products shipped by these exporters are available. Verification of the items will occur as time permits.

The representatives were told of concerns that some commodities shipped under the GSM programs were other than U. S. origin. Specifically mentioned were hybrid seeds, sugar and tobacco.

It was explained that numerous false documents were found in the files at the bank. Due to the large number of suspect documents found to date the representatives were cautioned to not accept at face value documents received from firms associated with the Lavoro investigation.

Tom Conway stated members of his staff had discussed the possible false statements or certifications that could have been made and in his explanation he covered areas Agent Wade had mentioned: 1) overstating the quantity exported; 2) inflating the price charged, to cover fees; 3) determining if the commodity was even delivered; 4) verifying if the commodity was of U. S. origin; and 5) questioned if the commodity/item shipped was that which was registered in the guarantee.

Larry McElvain told of the meetings with the Iraqis. They had arrived in town expecting to get \$1.2 billion, because they had about \$1 billion in guarantees last year. Before the NAC meeting on Tuesday CCC was proposing about \$1 billion under GSM 102 and \$50 million under GSM 103. Originally two members on the NAC, Treasury and Federal Reserve, did not want to extend any guarantees to Iraq. Finally, on Wednesday night the NAC reached a compromise of \$400 million. When the Iraqi delegation were told of the decision they said Iraq did not have to depend on the U.S. to buy commodities. Additionally, they said the Lavoro situation should not be an issue, and the Iraqis routinely seek "after sales service" from all countries selling to them, a practice they did not feel was improper.

Decision and Result:

This meeting was interrupted by brief to FAS Administrator

Signature:

Title

Wm. L. Odenbach

Staff S. A.

[Signature]

[Signature]

Sept 29, 1989

Questions from Gail McKenzie, AUSA
1800 Richard Russell Building
75 Spring Street, S.W.
Atlanta, Georgia 30335

1. Assume legitimate commodities were sent to Iraq, but Banca Nazionale del Lavoro (BNL) - Atlanta did not have authority from BNL - New York or Rome, or the Georgia Bank Examiners, or the Federal Reserve to extend funding; and assume the Iraqis had a BNL signature book showing the BNL - Atlanta officers had no authority to extend such funding for those transactions, would the fact that but for this criminal scheme to defraud no CCC guaranteed funding would have been issued, effect CCC honoring the guarantees?

If these listed factors would effect the CCC guarantees, are there other factors that would cause CCC to honor the guarantees even in light of these facts, i.e. relations with Iraq or Italy?

2. Assuming there were substantial kickbacks in the \$10's of millions or more, that would have been absorbed by the exporting companies and been absorbed in the amounts guaranteed by the CCC, would that effect the underlying guarantees?

3. If the commodities were of U.S. origin and bartered on the world market for arms or anything else, would that effect the CCC guarantee?

4. Once we know (have sufficient evidence for criminal prosecution) non-U.S. commodities were exported under the GSM 103/103 program, will CCC nullify or void the guarantee?

If so, when?

Now or when Iraq defaults on payments?

(P. 23)
October 5, 1989

TO: Governor Kelley

FROM: [REDACTED] ✓

Subject: More on the CCC Program for Iraq

Following our further conversation today and for your records, we have called the NAC Secretariat and asked that the Federal Reserve's vote on the proposed \$400 million CCC program for Iraq be recorded as "opposed". We have also called the Agriculture Department and informed them that, after further consultation and consideration, we have voted against the proposal because we are not satisfied that the proposal should go forward given available information about deficiencies in the CCC program with Iraq and the strength of the assurances we have received from Agriculture about that program. We have also indicated that we are concerned about the CCC program, in general, given what we have been told about the program with Iraq.

Having adopted this position, we believe we should push forward to try to resolve our uncertainties about the CCC program. Therefore, I intend to write to Treasury and suggest that we join together in asking the Agriculture Department to provide the NAC as soon as possible with a report on (1) what its investigators have discovered about the Iraq program, (2) what the Department intends to do with respect to the Iraq program as a consequence, and (3) what are the implications for the CCC program as a whole. I will say that the Federal Reserve will have difficulty voting for any CCC credits until such a report is received and reviewed, unless we have a flat statement from Agriculture that it has no evidence of problems with respect to the program with the particular country.

cc: Mattingly, Siegan, Connors, Chang and Emery

REDACTEDDAILY LOG - BNL INVESTIGATION

October 5, 1989 - BNL

Tom Conway

Associate Gen Counsel - USDA

202-477-6883

re Foreign Agri Service/BNL

to talk with Iraqis soon

CCC now interested in correcting problems

1 - review price

a) too high - not benefit farmers/100% profit to brokers

CCC shouldn't guarantee above market rate

b) too low - not U.S. commodities

ex. Seed

Sugar

2 - more volume than country can use

ex. Seed

danger that barter for controlled items

- technology

- armaments

3 - non-licensed technology & arms received CCC guarantees ?

Source: Dept. of Agriculture

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BNL INVESTIGATION

October 6, 1989

Art Wade (FTS 475-4481)

On Thursday, Oct. 5, USDA in Washington met with an Iraqi delegation re contemplated \$1.2 billion funding guarantees from the CCC.

In that meeting, the Iraqis admitted to requiring "after sale services" from all who sold product to them including American, Australian & others companies. The Iraqis further acknowledged that said "services" included goods/products such as armored trucks & trailers and cash.

These Iraqi admissions confirmed proffered testimony from Paul Von Wedel, and written telexes in our possession from Iraqi representatives to a U.S. company.

The Iraqis further stated on Thursday that the free after sale products/goods/cash was a normal business practice in Iraq and well known throughout the world.

Iraqis were warned during 88 CCC guarantee negotiations that such "services" or kickbacks were in violation of program. Both USDA minutes and 88 negotiators recall this warning.

Source: Dept. of Justice



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

DIVISION OF INTERNATIONAL FINANCE

October 6, 1989

Mr. Charles H. Dallara
Assistant Secretary of the
Treasury for International Affairs
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Room 3421
Washington, DC 20220

Dear Charles:

The Federal Reserve in the end decided to join with Treasury in opposing the proposed \$400 million CCC program for Iraq in FY 1990. We voted against the proposal because we were not satisfied that the proposal should go forward given available information about deficiencies in the CCC program with Iraq and the quality of the assurances we received from Agriculture about that program. We also remain concerned about the CCC program in general, given what we have been told about the program in Iraq.

Now that Treasury and Federal Reserve have made their concerns known by opposing this proposal in the MAC, I propose that we join together in asking the Agriculture Department to provide the MAC with a full report as soon as possible on (1) what precisely its investigators have discovered about the Iraq program, (2) what the Agriculture Department intends to do with the Iraq program as a consequence, (3) what the implications for operation of the CCC program as a whole are, and (4) what the Agriculture Department intends to do to improve CCC program oversight.

Given our concerns, the Federal Reserve would have difficulty voting for any CCC credits until such a report is received and reviewed, unless we have a flat statement from Agriculture that it has no evidence of problems with respect to the program with the particular country.

Mr. Charles M. Dallara

- 2 -

If you concur with this approach, I would suggest that we submit this proposal to the MAC promptly so that MAC agencies will be able to make future decisions regarding CCC credits on a more informed basis.

Sincerely,



Edwin M. Truman
Staff Director



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D 41, 23, 25
Department of State

AN: 8890884-0212

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EXDIS

E.O. 12356: DECL OADR
TAGS: PREL, IZ
SUBJECT: SECRETARY'S OCTOBER 6 MEETING WITH
IRAQI FOREIGN MINISTER TARIQ AZIZ

EXDIS REVIEW	
<input checked="" type="checkbox"/> Cat. A	- Caption removed; transferred to O/FADRC
<input type="checkbox"/> Cat. B	- Transferred to O/FADRC with additional access controlled by S/S
<input type="checkbox"/> Cat. C	- Caption and custody retained by S/S
Reviewed by: <u>Eliah Kelly Jr.</u>	
Date: <u>4/14/93</u> 19__	

1. ~~SECRET~~ - ENTIRE TEXT.

2. SUMMARY: ON OCTOBER 6 SECRETARY BAKER MET WITH IRAQI FOREIGN MINISTER TARIQ AZIZ. AZIZ EMPHASIZED HIS GOVERNMENT'S STRONG DESIRE FOR THE VERY BEST POSSIBLE RELATIONSHIP WITH THE UNITED STATES, BUT SAID HIS GOVERNMENT HAD RECEIVED "SIGNALS" THAT THIS MIGHT NOT BE THE U.S. GOVERNMENT'S ATTITUDE. HE MENTIONED, 1) NEGATIVE REMARKS ABOUT IRAQI INTENTIONS IN THE GULF MADE TO OTHER GOVERNMENTS BY U.S. OFFICIALS, 2) USG-PLACED OBSTACLES TO IRAQI EFFORTS TO REBUILD ITS ECONOMY (TECHNOLOGY TRANSFER), AND 3) CONGRESSIONAL ACTIONS AGAINST IRAQ. HE
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ALSO SAID "SOME AMERICAN AGENCIES" ARE TRYING TO

DEPARTMENT OF STATE		IS/PPG/CDR	Date: <u>4/14/93</u>
<input type="checkbox"/> RELEASE	<input checked="" type="checkbox"/> DECLASSIFY	MR Cases Only	<u>Personal Privacy</u>
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DESTABILIZE IRAQ. FINALLY, HE COMPLAINED ABOUT A USG DECISION TO CUT CCC CREDITS FOR FY90 FROM OVER DOLS 1 BILLION TO DOLS 400 MILLION. THE SECRETARY ASSURED THE FOREIGN MINISTER OF OUR DESIRE FOR GOOD RELATIONS WITH IRAQ. AT THE SAME TIME, THE SECRETARY CONFIRMED U.S. CONCERNS GLOBALLY ABOUT THE TRANSFER OF SENSITIVE

TECHNOLOGY RELATED TO PROLIFERATION. HE ALSO OBSERVED THAT WHILE THE ADMINISTRATION HAD OPPOSED CONGRESSIONAL MOVES TO PLACE SANCTIONS ON IRAQ, THE CONGRESS HAD BEEN INFLUENCED STRONGLY BY GOI'S USE OF CW WHICH DID HAVE A VERY NEGATIVE IMPACT. HE ASKED FOR MORE DETAILS ABOUT ALLEGED U.S. EFFORTS TO DESTABILIZE IRAQ SO THAT HE COULD INVESTIGATE IT FULLY. REGARDING CCC CREDITS THE SECRETARY SAID HE UNDERSTOOD THE DOLS 400 MILLION IN CREDITS NOW OFFERED BY USG WAS AN INTERIM COMMITMENT. THE FED AND TREASURY ARE WORRIED ABOUT IRAQI INVOLVEMENT IN THE ATLANTA BNL BANK SCANDAL AND WISH TO DEFER COMMITMENT ON THE FULL LEVEL OF CCC CREDITS UNTIL THEIR INVESTIGATION IS COMPLETED. AZIZ SAID THIS WAS A BANKING PROBLEM AND NOT ONE THAT INVOLVED THE GOI. AZIZ MADE CLEAR A SOLUTION NEEDED TO BE FOUND QUICKLY. IRAQ IS PARTICULARLY WORRIED ABOUT THE IMPACT OF THIS DECISION ON ITS ABILITY TO MEET FOOD IMPORT REQUIREMENTS IN 1990. THE SECRETARY SAID HE WOULD LOOK INTO THE MATTER IMMEDIATELY. THE TWO SIDES ALSO DISCUSSED BRIEFLY THE MIDDLE EAST PEACE PROCESS AND LEBANON. END SUMMARY.

3. THE SECRETARY WARMLY WELCOMED IRAQI FOREIGN MINISTER TARIQ AZIZ TO THE DEPARTMENT ON OCTOBER 6. HE NOTED THEIR INABILITY TO FIND A MUTUALLY ACCEPTABLE TIME TO MEET IN NEW YORK AND SAID HE APPRECIATED AZIZ' WILLINGNESS TO COME
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PAGE 03 STATE 327801

TO WASHINGTON. THE SECRETARY SAID THE U.S. VALUES ITS RELATIONSHIP WITH IRAQ AND WANTS TO SEE IT STRENGTHEN AND BROADEN. OUR DIALOGUE ON HUMAN RIGHTS WILL HELP. HE ALSO NOTED WITH PLEASURE IRAQ'S PARTICIPATION IN CW CONFERENCES. REGARDING THE STARK CLAIMS, THE SECRETARY WELCOMED IRAQ'S PAYMENT OF WRONGFUL DEATH COMPENSATION AND OBSERVED THAT THIS SET THE STAGE FOR EARLY CONCLUSION OF THE REMAINING CLAIMS. HE ENDED HIS INTRODUCTORY REMARKS TO AGAIN STRESS THE U.S. DESIRE FOR GOOD RELATIONS SAYING THERE WAS ALL THE POTENTIAL TO MOVE THE RELATIONSHIP IN A

POSITIVE DIRECTION.

4. AZIZ RESPONDED WITH MARATHN THAT HE HAD GOOD RELATIONS WITH SECRETARY SHULTZ AND MANY OTHER SENIOR AMERICAN OFFICIALS. HE SAID HE HAD ALWAYS CONDUCTED HIS CONVERSATIONS IN A FRIENDLY AND OPEN MANNER AND HOPED HE COULD CONTINUE TO DO SO WITH THE SECRETARY. IT LEADS TO MUCH BETTER UNDERSTANDING. THE SECRETARY ENCOURAGED HIM TO DO SO. AZIZ SAID HE WANTED TO STATE CLEARLY AND UNEQUIVOCALLY THAT IRAQ WANTS GOOD RELATIONS WITH THE U.S. ON THE BASIS OF MUTUAL RESPECT AND UNDERSTANDING. HE SAID HE WANTED IT UNDERSTOOD THAT WHILE THIS HAD BEEN STATED IN TIME OF WAR WHEN DIPLOMATIC RELATIONS WERE RESTORED, HE WAS SAYING IT NOW AFTER A CEASEFIRE HAD BROUGHT THE ACTIVE

FIGHTING IN THE WAR TO AN END. HE STRONGLY BELIEVE, HE SAID, THAT GOOD RELATIONS BETWEEN US IS IN THE BEST INTERESTS OF THE U.S. AND OF THE REGION.

5. AZIZ CONTINUED THAT HE GREATLY APPRECIATED THE SECRETARY'S ASSESSMENT OF BILATERAL RELATIONS; BUT, FRANKLY SPEAKING IN THE SPIRIT OF FRIENDSHIP, IRAQ HAS NOT SEEN "ENOUGH IMPROVEMENT" IN THE RELATIONSHIP SINCE THE CEASEFIRE. IN FACT IRAQ HAD RECEIVED A NUMBER OF SIGNALS WHICH WERE RATHER DISTURBING. HE LISTED FOUR: 1) AFTER THE CEASEFIRE THE GOI GOT A NUMBER OF REPORTS FROM SEVERAL
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CAPITALS THAT SENIOR U.S. DIPLOMATS WERE APPROACHING OFFICIALS IN THE GULF RAISING SUSPICION AND FEAR REGARDING IRAQI INTENTIONS IN THE REGION. AZIZ SAID THIS DISTURBED THE GOI GREATLY BECAUSE DURING THE WAR HE HAD DISCUSSED THE GULF REGION IN A FRANK MANNER. IRAQ HAS SAID CLEARLY THAT IT WANTS TO MAINTAIN THE WHOLE REGION INTACT -- INCLUDING THE INDIVIDUAL COUNTRIES -- AND THAT IT HAS NO BAD INTENTIONS AGAINST ANY OF THEM. HE STRESSED THAT IRAQ'S OBJECTIVE WAS AND IS GOOD RELATIONS WITH THEM ALL, PARTICULARLY SAUDI ARABIA AND KUWAIT. HENCE, HE SAID THE GOI IS PERPLEXED AND CONCERNED ABOUT U.S. MOTIVATIONS.

6. SECONDLY, AZIZ SAID THE U.S. SEEMED TO HAVE A NEGATIVE APPROACH TO IRAQI POST-WAR EFFORTS TO DEVELOP ITS INDUSTRY AND TECHNOLOGICAL BASE. AZIZ EMPHASIZED THAT THE GOI HAD CLEARLY STATED THAT ITS CURRENT GOALS AND OBJECTIVES WERE

TO RECONSTRUCT AND RESTORE THE ECONOMY. OUR DESIRE, HE SAID, IS TO DEVELOP THE COUNTRY FOR OUR PEOPLE -- TO RAISE THEIR STANDARD OF LIVING. IMPLYING THIS MASSIVE EFFORT, WAS BEING MISREPRESENTED, AZIZ DECLARED THAT ALL THIS WAS BEING DONE FOR IRAQ AND HER PEOPLE. NO OBJECTIVE DIRECTED AGAINST ANY OTHER COUNTRY IN THE REGION LAY BEHIND IRAQI DEVELOPMENT ACTIVITIES. AZIZ THEN COMPLAINED OF A PROPAGANDA CAMPAIGN AGAINST IRAQ IN THE U.S. -- PARTICULARLY BY THE CONGRESS. HE NOTED CONGRESSIONAL MOVES TO LEGISLATE ECONOMIC AND POLITICAL SANCTIONS.

7. FINALLY, AND MOST SERIOUSLY, AZIZ STATED THAT LATELY THERE HAD BEEN REPORTS THAT "SOME AMERICAN AGENCIES" ARE TRYING TO DESTABILIZE IRAQ. HE SAID HE HAD NO DETAILS AND HAD HEARD ONLY THE REPORTS JUST AS HE WAS LEAVING BAGHDAD. HE SAID HE FELT IT WAS IMPORTANT TO MENTION THIS TO THE SECRETARY. THE SECRETARY INDICATED HIS SURPRISE AT
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SUCH REPORTS AND SAID HE WOULD LIKE MORE DETAILS AS QUICKLY AS POSSIBLE SO HE COULD LOOK INTO IT IMMEDIATELY. AZIZ UNDERTOOK TO TRY TO GET MORE DETAILS.

8. AZIZ CLOSED WITH A FINAL POINT ON U.S. IRAQI

COMMERCIAL RELATIONS. HE NOTED THAT UP TO NOW THIS HAD BEEN A VERY POSITIVE ASPECT OF OUR BILATERAL RELATIONSHIP. THE USG, HE SAID, HAD ALLOCATED CCC CREDITS OF OVER DOLS 1 BILLION IN FY89, MAKING THE U.S. IRAQ'S MAJOR SUPPLIES OF AGRICULTURAL PRODUCTS. HE TOLD THE SECRETARY THAT HE HAD JUST LEARNED FROM THE IRAQI AGRICULTURAL TEAM, NOW IN WASHINGTON TO REACH AGREEMENT ON A PROGRAM OF SIMILAR SIZE FOR FY90, THAT THE U.S. WAS PREPARED TO AGREE TO ONLY DOLS 400 MILLION IN CREDITS AT THIS TIME. THE CCC PROGRAM WAS BEING LINKED TO THE BNL ATLANTA BRANCH SCANDAL OF WHICH IRAQ HAD NO PART. THE MINISTER MADE IT CLEAR THIS WAS NOT A SIGN THAT THE U.S. WANTED IMPROVEMENT IN RELATIONS. IT IS IN FACT A SETBACK AND GOI IS VERY UNHAPPY.

9. THE SECRETARY SAID HE WISHED TO RESPOND TO THE MINISTER'S POINTS. HE SAID HE HEARD THE DESIRE FOR BETTER RELATIONS AND THAT WAS THE U.S. OBJECTIVE AS WELL. HE ASKED AZIZ TO NOTE THAT THE U.S. HAD BEEN IN THE FOREFRONT

IN FOCUSING ON THE POW REPATRIATION ISSUE AT THE UNSC DURING THE MEETING ON RENEWING UNMOVIC'S MANDATE. AS TO EFFORTS TO DESTABILIZE IRAQ, THE SECRETARY REPEATED THAT OUR DESIRE IS TO IMPROVE RELATIONS WITH IRAQ AND HE URGED AZIZ TO GIVE HIM FURTHER DETAILS AS SOON AS POSSIBLE. REGARDING TECHNOLOGY, THE SECRETARY ADMITTED THE U.S. DOES HAVE CONCERNS ABOUT PROLIFERATION, BUT THEY ARE WORLD WIDE CONCERNS. HE SUGGESTED THAT WE WORK TOGETHER ON SPECIFIC REQUESTS SO THE U.S. CAN UNDERSTAND IRAQI NEEDS AND OBJECTIVES AND IRAQ CAN HEAR WHAT CONCERNS US. REGARDING AZIZ' POINT ON CONGRESSIONAL CRITICISM, THE SECRETARY
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NOTED THAT THE ADMINISTRATION NEVER SUPPORTED SANCTIONS ON IRAQ AND THAT HE PERSONALLY HAD SO TESTIFIED. THE SECRETARY ADDED THAT CONGRESSIONAL ACTIONS WERE LIMITED TO IRAQI USE OF CW DURING THE WAR. OUR POSITION CONTINUES TO BE THAT WE NEED TO LOOK FORWARD, NOT BACKWARD.

10. TURNING TO CCC CREDITS, THE SECRETARY SAID HE WAS AWARE THAT A PROBLEM EXISTED: IT WAS HIS UNDERSTANDING THAT THE DOLS 400 MILLION WHICH THE USG HAS NOW READY TO APPROVE ~~IS~~ AN INTERIM ALLOTMENT. THE BALANCE OF THE PROGRAM WAS BEING HELD PENDING FURTHER INVESTIGATIONS INTO THE BNL BANKING SCANDAL. HE NOTED IRAQ HAD RECEIVED ABOUT DOLS 3 BILLION OUT OF DOLS 4 BILLION OF THE UNAUTHORIZED LOANS. THE FED AND TREASURY, HE EXPLAINED, WANT SOME RESTRAINT IN FURTHER CREDITS TO IRAQ UNTIL THIS BANKING PROBLEM IS MORE THOROUGHLY INVESTIGATED. AZIZ DEFENDED THE GOI, ARGUING THAT THEY WERE NOT INVOLVED IN ANY ILLEGAL ACTIONS. IF THE BANK HAD BEEN WILLING TO MAKE LOANS UNDER SUCH GOOD TERMS, ANY CUSTOMER WOULD HAVE SAID

BANK NOT THE CUSTOMER WHO HAD THE PROBLEM. AZIZ SAID HE HAD MET WITH THE ITALIAN MINISTER OF FINANCE WHO SAID IRAQ WAS NOT INVOLVED. IF THE GOVERNMENT OF ITALY IS NOT TAKING ACTION AGAINST IRAQ, IT IS STRANGE THAT THE U.S. IS. IRAQ, HE SAID, WAS ALWAYS PUNCTUAL WITH ITS PAYMENTS TO THE U.S. HE CONTINUED THAT IRAQ WAS RELYING ON U.S. COOPERATION IN A NUMBER OF AREAS AND SUCH ACTIONS TO RESTRICT PROGRAMS CALLED INTO QUESTION WHETHER THE U.S. WOULD BE A RELIABLE TRADING PARTNER. FOOD WAS A PARTICULARLY EXPLOSIVE AREA BECAUSE THE GOVERNMENT MUST FEED ITS PEOPLE. HE SAID THE IRAQI DELEGATION WAS VERY

██████████ CONCERNED THAT FAILURE TO AGREE TO THE FULL PROGRAM NOW
WOULD FORCE IRAQ TO SEARCH IMMEDIATELY FOR ALTERNATIVE
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SUPPLIERS AND SUCH SUPPLIERS MAY NOT BE AVAILABLE. U.S.
ACTIONS WILL SOUR RELATIONS, HE CONCLUDED.

11. THE SECRETARY ASKED IF GOI IS COOPERATING WITH THE FED
INVESTIGATION, INDICATING THIS WAS IMPORTANT TO DO.
ACTING ASSISTANT SECRETARY COVEY NOTED THERE WERE SOME
CONCERNS THAT THERE MAY HAVE BEEN SOME WRONGDOING
TRACEABLE TO IRAQI OFFICIALS. AZIZ SAID THAT IRAQI
CENTRAL BANK GOVERNOR AND MINISTER OF FINANCE HAD BEEN IN
WASHINGTON, MET WITH U.S. OFFICIALS, AND WERE TOLD THE GOI
WAS NOT INVOLVED. IF IRAQI OFFICIALS WERE IMPLICATED, THE
GOI WANTED TO KNOW IMMEDIATELY. HE STRESSED IRAQI PRIDE
IN ROOTING OUT CORRUPTION AND SAID GOI WOULD SURELY ACT ON
ANY INFORMATION AVAILABLE TO IT. WHEN THE SECRETARY ASKED
IF GOI WOULD MAKE AVAILABLE ANY OFFICIAL IMPLICATED IN THE
AFFAIR, HE SAID HE DID NOT KNOW. IT WOULD DEPEND ON THE
INFORMATION. AZIZ AGAIN REPEATED THE URGENCY OF SOLVING
THIS MATTER QUICKLY. THE SECRETARY SAID HE WANTED TO FIND
A WAY TO SOLVE IT AND THE USG MAY NEED ASSURANCES FROM GOI
THAT IT WILL AID IN THE INVESTIGATION. HE ASSURED AZIZ
THAT HE WOULD IMMEDIATELY LOOK INTO WHAT COULD BE DONE AND
LET HIM KNOW WHAT OTHER U.S. AGENCIES MIGHT NEED FROM GOI.

12. THE SECRETARY SAID HE HAD SEVERAL SUBJECTS THAT HE
WISHED TO RAISE. ON THE SEARCH FOR PEACE IN THE MIDDLE
EAST, HE ASKED IRAQ TO CONSIDER SUPPORTING THE EGYPTIAN
TEN POINTS. THE SECRETARY SAID THE U.S. IS WORKING HARD
TO KEEP THE PEACE PROCESS GOING. BOTH EGYPT AND JORDAN,
ACC PARTNERS WITH IRAQ, HAD BEEN VERY HELPFUL. IRAQ'S
ENDORSEMENT OF THE EGYPTIAN TEN POINTS WOULD BE A BIG
HELP. AZIZ SAID EGYPT HAD DISCUSSED THE TEN POINTS WITH
IRAQ AND ARAFAT, TOO, HAD RECENTLY BEEN IN BAGHDAD. THE
GOI, HE SAID, WAS PLEASED AND SUPPORTED THE JOINT EFFORTS
BY EGYPT AND THE PLO. AZIZ NOTED THAT IRAQI SUPPORT WAS
WELL KNOWN IN THE REGION. IT WAS, HOWEVER, IRAQI POLICY

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TO REFRAIN FROM PUBLIC STATEMENTS ON THE PEACE PROCESS, A POLICY IRAQ WOULD MAINTAIN. TALK, PARTICULARLY FROM PARTIES NOT DIRECTLY INVOLVED, MAY COMPLICATE THE ISSUE.

13. THE SECRETARY RAISED LEBANON SAYING HE STRONGLY SUPPORTED THE ARAB LEAGUE TRIPARTITE COMMITTEE EFFORT AND UNDERSTOOD IRAQ DID TOO. HE SAID HE WANTED TO SEE ALL FOREIGN FORCES LEAVE LEBANON. HE HAD SUPPORTED A ROLE FOR GENERAL AOUN IN THE PROCESS AND HOPE HE WILL STAY COMMITTED TO THE AL EFFORT. THE SECRETARY SAID HE HAD HOPES THAT IRAQ WOULD TOO. HE ARE ENCOURAGED, HE CONCLUDED, BY THE INITIAL REPORTS COMING OUT OF TAIF. AZIZ AFFIRMED THAT IRAQ DOES INDEED SUPPORT THE AL EFFORT NOTING THAT WHEN THEY HAD ASKED IRAQ TO STOP SENDING ARMS TO LEBANON IRAQ HAD AGREED. IRAQ HAD ALSO ADVISED AOUN TO SUPPORT THE MEETING IN TAIF. AZIZ STRESSED THE HISTORIC NATURE OF THE MEETING -- THE FIRST TIME LEBANESE MEMBERS OF PARLIAMENT HAD BEEN ABLE TO DISCUSS THEIR PROBLEMS UNDER AN ARAB LEAGUE UMBRELLA AND NOT UNDER SYRIAN DOMINATION. SYRIA, AFTER ALL, WAS A PARTY IN THE LEBANESE DISPUTE. AZIZ ALSO SAID IRAQ HAD ENCOURAGED THE CHRISTIANS TO ACCEPT REFORM (THE 50/50 FORMULA). TIMES HAD CHANGED AND THE OLD SYSTEMS ARE NO LONGER VALID, HE SAID. THE QUESTION OF THE SYRIAN PRESENCE, HOWEVER, HAD TO BE FACED AND RESOLVED. A NEW GOVERNMENT AND NEW PRESIDENT COULD NOT FUNCTION UNDER SYRIAN DOMINATION. THEY WOULD BE HOSTAGES -- JUST AS SALIM AL-RUSS AND SOME OTHER LEBANESE OFFICIALS ARE NOW IN WEST BEIRUT. AT A MINIMUM, AZIZ ARGUED, THERE HAD TO BE A FREE ENVIRONMENT IN THE CAPITAL. THE SYRIANS, HE SAID, DO NOT HAVE TO WITHDRAW IMMEDIATELY AND PRESIDENT HUSSEIN HAD TOLD ASAD THIS IN CASABLANCA. AZIZ CONCLUDED THAT SADDAM HUSSEIN HAD, AT KING FAHD'S REQUEST, SENT A MESSAGE TO AOUN
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PAGE 09 STATE 327801

OCTOBER 5 URGING HIM TO COOPERATE WITH THE AL COMMITTEE AND SAUDI ARABIA TO ACHIEVE A SUCCESSFUL OUTCOME OF THE TAIF MEETING. AZIZ SAID IRAQ HAD GREAT CONFIDENCE IN KING FAHD AND WOULD GIVE HIM ALL SUPPORT POSSIBLE.

14. PARTICIPANTS: IRAQI FOREIGN MINISTER TARIQ AZIZ, IRAQI APPOINTED AMBASSADOR IN WASHINGTON MOHAMED SADIQ AL-NASHAT, NFA INTERNATIONAL ORGANIZATIONS DIRECTOR RIYADH

AL-QAYSI AND AZIZ, CHIEF OF CABINET, KANAL ISSA, THE
 SECRETARY, UNDER SECRETARY, BARTHOCOREN, ASSISTANT
 SECRETARY, TUTHILL, POLICY PLANNING DIRECTOR, ROSS, ACTING
 DEPUTY ASSISTANT SECRETARY, COREY, AND NEW DEPUTY ASSISTANT
 SECRETARY, EDWARD W. GRENNE, JR. (NOTETAKER) COMPLETED THE
 U.S. SIDE. BAKER

SECRET



DEPARTMENT OF THE TREASURY
WASHINGTON

ACTION

MEMORANDUM FOR ASSISTANT SECRETARY DALLARA

FROM: William E. Barreda
Deputy Assistant Secretary
Trade and Investment Policy

SUBJECT: Response to Ted Truman's Letter on Iraq Follow-up

Ted Truman wrote to you on October 6 suggesting that Treasury and the FRB join together in asking the Agriculture Department to provide the MAC with a full report as soon as possible on (1) what USDA's investigators into the BNL affair have discovered about the Iraq program, (2) what USDA intends to do with the Iraq program as a consequence, (3) implications for CCC programs as a whole and (4) what USDA intends to do to improve program oversight. He adds that given their concerns, the FRB would have difficulty voting for any CCC credits until such a report is received and reviewed.

Our proposed response concurs that such a report would be useful, and indicates that you will ask the MAC Secretariat to schedule another discussion of the Iraq program as soon as USDA feels it is in a position to respond. It also suggests that Treasury would not want to put the entire credit guarantee programs in question on the basis of allegations and that we are prepared to consider USDA proposals for countries other than Iraq.

Also attached is USDA's proposal for a \$400 million program, containing ~~unsatisfactory~~ assurances.

USDA's

Attachments: Proposed Response
Incoming Letter
USDA Proposal

by USDA concerning

regarding their intention

*as to their plan for addressing
the probs. raised by the BNL affair*

We consider these assurances vague & unsat.



DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

Mr. Edwin M. Truman
Staff Director
Division of International Finance
Board of Governors of the Federal Reserve System
Washington, D.C. 20551

Dear Ted:

I am glad that the Federal Reserve decided to join us in opposing the proposed \$400 million credit guarantee program for Iraq in FY 1990 at this time.

Asking USDA to report to the NAC along the lines you have suggested seems useful and appropriate. Since there are no immediate prospects for a program in Iraq, and USDA seems increasingly to share some of our concerns about operational procedures, I think we may get more satisfactory answers than we have to date. I will ask the NAC Secretariat to schedule another discussion of the Iraq program as soon as USDA feels it is in a position to respond. On the basis of that discussion we can decide whether to push for a written report.

Although we share your concerns about the potential implications for the operation of the CCC program as a whole, we would not want to put the entire credit guarantee programs in question on the basis of the BNL-related allegations. Accordingly, we remain prepared to consider USDA proposals for CCC programming in countries other than Iraq.

Sincerely,

Charles H. Dallara
Assistant Secretary
International Affairs



DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

MEMORANDUM FOR SECRETARY BRADY

THROUGH: Under Secretary Mulford
FROM: Charles H. Dallara
Assistant Secretary (International Affairs)
SUBJECT: Credit Guarantees for Iraq in FY 1990

*previously
cleared
ver: on
by TCF, MM, all 3
have standard review*

Issue

Treasury and the FRB have opposed additional CCC credit guarantees to finance agricultural exports to Iraq until the implications of the Banca Nazionale del Lavoro (BNL) affair have been sorted out. Should Secretary Baker or others approach you to reverse the Treasury position, you should be aware that we (1) want to resolve issues surrounding the BNL affair by receiving assurances from CCC that they are taking steps to tighten their oversight of their program so as to avoid further BNL type problems and (2) would be prepared to support an \$800 million program for FY 1990 for Iraq if the BNL affair is sorted out.

Background

The BNL Affair. In August the FBI found that substantial amounts of financing had been made available to the Government of Iraq by the Atlanta branch of Italy's state-owned BNL allegedly without authorization from the bank's central offices and off the books. The credits may have supported illicit arms shipments.

USDA's Commodity Credit Corporation has guaranteed repayment by Iraq of some \$700 million of these credits for the purchase of US agricultural commodities. The Justice Department investigation has brought to light potentially serious deficiencies in CCC procedures regarding foreign content and pricing (possibly allowing kickbacks to Iraqi officials).

Credit Guarantees for Iraq. The FRB and Treasury have opposed any programming for Iraq in FY 1990 without satisfactory assurances, which USDA has been unable or unwilling to give, that CCC problems brought to light by the investigations are being addressed. USDA, with support from State and other agencies, has proposed to the Iraqi buying team now in town an interim program of \$400 million for FY 1990.

- 2 -

On October 6, the Iraqi Foreign Minister raised the issue with Secretary Baker, who said he wanted a solution and would look into the matter immediately. The buying team does not want to leave town without agreement on a \$1 billion program, as in the past two fiscal years. We prefer an \$800 million program because we want to start cutting back in Iraq due to creditworthiness concerns.



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ACTION NEA-11

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OPS CENTER PLEASE DELIVER TO NEA/NGA OPENING OF
BUSINESS OCTOBER 10

E.O. 12356; DECL: OADR
TAGS: ECON, IZ, US
SUBJECT: CCC NEGOTIATIONS

REF: (A) BAGHDAD 5368
- (B) WILSON/REHLER TELCON OCTOBER 7, 1989

~~CONFIDENTIAL~~ ENTIRE TEXT.

2. NFA UNDER SECRETARY, NIZAR HANBUN, CONVOKED CHARGE EVENING OF OCTOBER 8. HANBUN STATING THAT HE HAD BEEN INSTRUCTED BY "HIGHEST AUTHORITIES IN THE IRAQI GOVERNMENT" REPEATED THE MESSAGE DELIVERED TO AMBASSADOR GLASPIE THE PREVIOUS EVENING BY THE MINISTER OF TRADE (REF A). STRESSING THAT THE GOI IS INTERESTED IN STRENGTHENING BILATERAL RELATIONS WITH THE UNITED STATES, HANBUN SAID THAT IRAQ NEEDS TO STABILIZE THE COMMERCIAL RELATIONS AND MAKE THEM MORE PREDICTABLE.

3: HANDUM THEN CONTINUED BY URGING THAT NO ANNOUNCE-
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PAGE 02 BAGHDAD 05379 091022Z

MENT ON THE CURRENT CCC NEGOTIATIONS BE MADE UNLESS

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AN AGREEMENT ON THE FULL PROGRAM HAS BEEN REACHED. HE EMPHASIZED THAT IRAQ WAS CONCERNED THAT THE ANNOUNCEMENT OF A POTENTIAL PROGRAM MIGHT BE VIEWED IN INTERNATIONAL FINANCIAL CIRCLES AS A JUDGMENT ON THE PART OF THE USG THAT THE GOI WAS SOMEHOW IMPLICATED IN THE BNL SCANDAL. ACCORDINGLY, IRAQ'S REPUTATION IN THESE FINANCIAL CIRCLES WOULD BE DAMAGED.

4. WITH HIS NAILED FIST STILL IN HIS VELVET GLOVE, HAMDUN THEN POINTED OUT THAT IRAQ DOES HAVE ALTERNATIVE SOURCES OF SUPPLY TO WHICH IT COULD TURN IF THE U.S. WERE UNWILLING TO COMMIT ITSELF TO A PROGRAM. THESE SOURCES WHICH HE SAID NEED NOT BE NAMED, OFTEN COMPLAIN TO THE GOI THAT THE U.S. RECEIVES PREFERENTIAL TREATMENT IN AGRICULTURAL TRADE. THESE SAME SOURCES ALSO ACCUSE IRAQ OF FAVORING THE U.S. WHEN IT COMES TO REPAYING ITS DEBTS. COMMENT: IMPLICIT IN HAMDUN'S REMARKS WAS THE SUGGESTION THAT SHOULD HE BE UNABLE TO AGREE TO A PROGRAM, IRAQ WOULD HAVE TO RETHINK BOTH ITS DEPENDENCE ON U.S. SUPPLIERS OF AGRICULTURE PRODUCTS, AND THE PRIORITY TREATMENT IT ACCORDS TO U.S. CREDITORS IN THE REPAYMENT OF ITS DEBTS. END COMMENT.

5. AT A LATER ENCOUNTER WITH HAMDUN AT A RECEPTION, CHARGE ADVISED THAT HE HAD INFORMED WASHINGTON OF THE GOI CONCERNS (AS HAD THE AMBASSADOR IN REF A) AND THAT THE DEPARTMENT HAD CONFIRMED OUR INTEREST IN SEEING THAT ISSUE RESOLVED AS EXPEDITIOUSLY AS POSSIBLE (PER REF TELCON B). CHARGE EXPLAINED THAT IT MIGHT NOT BE POSSIBLE TO REACH A SOLUTION BY TUESDAY, OCTOBER 10, GIVEN THE LONG WEEKEND AND

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PAGE 03

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THE TRIP TO MOSCOW BY FED CHAIRMAN GREENSPAN. HAMDUN THEN REPEATED HIS URGING THAT IN THE ABSENCE OF A FULL AGREEMENT, NO PUBLIC ANNOUNCEMENT SHOULD BE MADE.

6. COMMENT: IT IS ABUNDANTLY CLEAR THAT THE IRAQIS ARE CONCERNED AT THE HIGHEST LEVELS OF THE GOVERNMENT ABOUT THE POSSIBLE ADVERSE AFFECT THAT A PUBLIC ANNOUNCEMENT COULD HAVE ON ITS REPUTATION UNLESS THAT ANNOUNCEMENT IS FOR A FULL 1990 PROGRAM. IN

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THE EVENT THAT HE CANNOT REACH AGREEMENT ON A FULL
PROGRAM HE URGE THAT ALL ANNOUNCEMENTS BE POSTPONED
UNTIL A FULL AGREEMENT CAN BE REACHED. END COMMENT.
HILSON

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BNL INVESTIGATION

REDACTED

October 10, 1989

Ted Borek - 202-647-5242
U.S. State Department

Borek is currently briefing Sec. of State Baker re BNL matter which was raised in a recent meeting between Baker & Prime Minister of Iraq. P.M. threatened to take business elsewhere.

State Department was attempting to determine whether "renegade" Iraqis were involved or whether the irregularities of the BNL case were the results of official Iraqi gov. action. To date, it appears that those representing the Iraqi government (i.e. Minister of Industry and Trade & official of Central Bank & Rafidain Bank) were in fact who they said they were & that they indeed spoke for the Iraqi government.

Sec. Baker is most interested in BNL case & is receiving frequent briefings.

Art Wade

1. Larry McElvain - Programs people, For. Agri Service
Op. Div for CCC
Will be at meeting with Kevin Brosch and me tomorrow a.m.
2. Iraqi Minister of Finance recalled
now acting Minister of Finance
3. Export enhancement program - beneficiaries
Cargil factor in gov. subsidy; required evidence of entries
- evidence to Turkey, Asaba - not Iraq
4. \$400,000 offered by Agri on Thurs.
5. Over weekend Lobbyist pressure
10 Senators to put pressure on Agri to grant CCC guarantees
to \$12 Billion for ^{Iran} ~~domestic~~ year.
6. Farm Bill 85 - Congress mandated that USDA to export \$5 B
under 1 program, #102
7. Most countries can no longer qualify because have actually
defaulted

Source: *Dept of Justice*

89AP.3

COUNTRY REVIEW UPDATE



PREPARED BY

**COUNTRY RISK ANALYSIS DIVISION
EXPORT-IMPORT BANK OF THE U.S.
OCTOBER 10, 1989**

IRAQ COUNTRY REVIEW UPDATE

Since our April and June 1989 Country Reviews, Iraq's ability and willingness to repay foreign obligations appears not to have changed appreciably. Unable to service all of its debts, Iraq only pays creditors who it believes are willing to increase their exposure continuously. Recent events confirm this analysis.

- ECGD--once Iraq's "most favored" creditor--has suspended its \$600 million 1989 protocol because of major arrearages. Iraq was to repay over \$400 million in 1989, but permitted arrears because ECGD refused to consider a large increase in its program.

- Because of arrears this year, CCC's \$1 billion program has occasionally been suspended. Iraq permits arrears to CCC in spite of the program's size and attractive terms. Because of their concerns about Iraqi financial behavior, the Fed and Treasury want CCC to scale back this program.

- Other export credit agencies--COFACE, MITI, and SACE--are off-cover or suspended for medium- and long-term credits. Only HERMES has a medium-term program, but it is smaller than Exim's short-term program. Like Exim, most agencies now operate only on a revolving basis--providing cover only as Iraq makes payments.

- The BNL incident--which may have involved criminal behavior by both BNL and Iraqi officials--raises additional doubts about the nature of Iraq's financial behavior. Iraq does not wish to repay already-disbursed L/Cs unless disbursements are made on promised L/Cs, even those issued illegally.

- In spite of growing international pressure, Iraq continues to refuse to undertake a multilateral rescheduling exercise through the Paris Club. Paris Club reschedulings would force Iraq to treat creditors equally, and would require international scrutiny of Iraq's economic situation and priorities. U.S. policy requires multilateral reschedulings (see attached MAC policy).

- The BNL incident has revealed the extent of Iraqi efforts to attract Western financial support for Iraq's military industrialization program. Iraq is pursuing technologically advanced, import-substituting, dual civilian-military industrialization, possibly in violation of Western export restrictions.

- Iraq's oil revenues cannot cover Iraq's ambitious industrialization plans. Even before the recent completion of a second Saudi pipeline, Iraq had ample pipeline capacity; however, its OPEC quota permits no room for additional oil exports. Any Iraqi attempt at overproduction risks retaliation by other OPEC members and a revenue-offsetting price collapse.

- Iraq continues to cajole export agencies through offers of lucrative contracts to exporters, friendly visits, and promises of favored creditor status.

PRINCIPALS CHANNEL
S/S 8923497

United States Department of State

October 11, 1989

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Washington, D.C. 20530

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MEMORANDUM FOR THE SECRETARY

SUBJECT: CCC Credits for Iraq

From: Richard McCormack, *Undersecretary of State*

I have looked into the problems concerning USDA's Commodity Credit Corporation (CCC) program for Iraq. There are three distinct but related problem areas:

1. Creditworthiness.
2. Allegations of corruption in the operation of the Iraqi CCC program itself.
3. The Italian Banca Nazionale de Lavoro (BNL) agency office scandal in Atlanta.

Creditworthiness

The Fed, Treasury and EXIM have all been concerned about Iraq's credit record for several years. During the war years the Iraqis became notoriously bad creditors defaulting or unilaterally rescheduling billions of dollars of official and commercial credit and refusing to even discuss the matter in the Paris and London Clubs. Because of the extenuating circumstances and the country's substantial economic potential, not to mention the opportunity to profit from the war recovery program, this has never been a big stumbling bloc for Iraq's other major trading partners like Japan, France and West Germany.

Iraq's repayment record on the CCC program has been good. There is, however, some concern about the large amount of credit outstanding (about \$1.7 billion) and heavy debt service (some \$800 million a year), especially since Iraq already accounts for about 20 percent of the total CCC program. Despite these concerns by Treasury and the Fed, USDA has been disposed to continue the program at the \$1 billion a year level, in part, not to unnecessarily anger the Iraqis and trigger a default that could jeopardize the whole CCC program.

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Creditworthiness, therefore, while a legitimate concern, is not a major driving factor for reducing the Iraq CCC program. All other things being equal, USDA would continue on at the \$1 billion plus level indefinitely and the Fed and Treasury would probably acquiesce.

EXIM has refused to provide medium-term credit to Iraq until they agree to multi-debt rescheduling of official debt. The Bank's \$200 million insurance program has also been "suspended" until the \$6.2 million in arrears is repaid.

Corruption

Several investigations (IRS, DOD, USDA, FBI) reportedly are looking to allegations of widespread and blatant "irregularities" in the CCC program for Iraq. Hard information is difficult to obtain, but apparently there has been substantial overpricing of some commodities (double and triple wholesale prices), diversion and trans-shipment of commodities outside Iraq and financing of non-U.S. origin goods. There is even one report that the Iraqis used the proceeds for arms purchases.

None of this, of course, has yet to be proven. Nor is it clear how long these investigations will take and whether or not indictments will eventually be handed down. And even if they are, it may never be clear how much, if any, Iraqi official complicity there was.

Banca Nazionale del Lavoro (BNL)

The unfolding BNL scandal is directly involved with the Iraqi CCC program and cannot be separated from it. Of the \$4 billion of unauthorized loans involved, about \$1 billion were CCC guaranteed. (* is trying to obtain the details from the U.S. attorney in Atlanta.) Treasury and the Fed, however, find it hard to believe that Iraqi Central Bank officials and others were not aware of what was going on given the apparent scale of loans, kickbacks, deeply discounted interest rates and other gross irregularities. Indictments of U.S. citizens are expected by the end of this year, although no legal moves against Iraqi officials are contemplated at this point.

It is also worth noting the president of Iraq's central bank and the finance minister reportedly have been arrested for unknown reasons in the past several days.

(* = State)

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- 3 -

Response to Iraqis

Given the above apparent problems with the Iraq CCC program, it would seem wise to proceed with caution and prudence. We should not jump to conclusions before all the facts are known; nor should we continue with business-as-usual.

USDA, acting against the advice of the Fed and Treasury, but with the support of the other MAC members (including State), recently approved a "first tranche" of \$400 million in FY 1990 CCC credits for Iraq -- about one-third of the planned annual program or enough to keep the pipeline open until January at about the same volume as last year. They have hold the Iraqis that approval of additional credits will depend on the outcome of the ongoing investigations into the BMA scandal and charges of corruption in the operation of the CCC program.

The Iraqis are taking an "all or nothing" approach, insisting that they have done nothing wrong and will be hurt badly if the annual CCC program is substantially cut. Iraq, in fact, is a consistent net importer of food and other commodities and undoubtedly benefits considerably by the CCC program. Certain painful adjustments would undoubtedly have to be made at a time when the government is hard-pressed for foreign exchange.

On balance, I think the USDA approach is prudent and proper under the circumstances. No options are foreclosed and, at least until the pipeline dries up, the Iraqis are not being prejudged until the facts are known and acted upon by U.S. authorities.

In the meantime, this situation should be kept under close policy review because the stakes are big. We need export markets, and Iraq is a large potential market and as the war-induced imports are replaced by commercial purchases, this market will undoubtedly increase in the next decade.

Once the facts are all known, it may be possible to correct the problem by building in safeguards against future possible abuses and then resuming the Iraq CCC program at previous levels. We will want, in any event, to avoid taking punitive action against the whole Iraqi government and population for the sins of some corrupt officials if they are brought to justice.

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Subject Briefing of USDA-OGC by NDGA re: Criminal Investigation of BNL-Atlanta	Date June 16, 1992
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To
 File

From
 AUSA Gale McKenzie

The following matters discovered during the Northern District of Georgia criminal investigation arising from the activity of BNL-Atlanta were brought to the attention of Kevin Brosch (USDA-OGC) and Larry McElvain (FAS) during an Atlanta meeting on October 11, 1989.¹

1. Criminal complicity of certain Iraqi government officials, BNL-Atlanta officers and employees and Entrade in a multibillion dollar scheme to defraud BNL;

2. Use by Iraqi government officials of non-CCC guaranteed, unsecured scheme proceeds to purchase products useful for military purposes, including machines that could, among other things, remove burrs from nose cones of missiles and compress nuclear fuel;

3. Kickbacks paid to BNL-Atlanta officers from an inflated CCC guarantee obtained by Entrade and assigned to BNL-Atlanta;

4. Iraqi purchases of more CCC guaranteed commodities than could be reasonably consumed in Iraq which strongly indicated barter, transshipment or other diversion from consumption in Iraq;²

5. Iraqi purchases of CCC guaranteed commodities at prices exceeding world market prices indicating inclusion of "after sale services" in amounts guaranteed by USDA CCC (and/or freight costs prior to freight being covered by the CCC guarantees);

6. Some Iraqi purchases of CCC guaranteed commodities at prices lower than reflected in other sales of U.S. products indicating inclusion of lower cost foreign product under the CCC guaranteed sales;

7. Current continuing demands by Iraqi government officials and payments by U.S. exporters receiving CCC guarantees of "after

¹Tom Conway, also of USDA-OGC, had been advised of many of these issues by phone on October 5, 1989.

²CCC guaranteed commodities could only be traced as far as Jordan and Turkey, due to no USDA requirement for bills of lading through to Iraq.

sale services" -- even after USDA had advised Iraq to cease such demands for payments;

8. Requirement of Iraqi government officials that exporters receiving unsecured BNL-Atlanta scheme proceeds make kickbacks to Iraq labelled as "consulting fees", etc., similar to the "after sale services" demanded on CCC guaranteed sales;

9. Criminal complicity of certain Iraqi government officials then involved with USDA in the CCC program in both the scheme to defraud BNL of multibillion dollar credit extensions and the scheme to defraud USDA of the cost of "after sale services" with the intent to use such scheme proceeds for what may be military purposes;

10. The effect upon Iraqi creditworthiness of terminating their blank check from BNL-Atlanta.

Details were provided to Brosch and McElvain regarding the above-listed matters. Many of those details are accurately reflected in the October 13, 1989 Memorandum of Conversation between State and USDA-OGC re USDA Comments on Investigations of Iraq and the Banco Nazionale del Lavoro, Atlanta Branch, Scandal. According to a November 1, 1989 Federal Reserve memo, many of the above-listed matters were also referenced, but discounted, by USDA-OGC in an October 31, 1989 meeting with representatives from Treasury, State and the Federal Reserve.

After providing the above-listed information to USDA-OGC in October 1989, DOJ scheduled another briefing of USDA-OGC in USDA's Washington office on February 23, 1990, at which time additional non grand jury evidence from the Northern District of Georgia criminal investigation was shared. That information was summarized in a May 16, 1990 letter from Mark Richard, Deputy Assistant Attorney, Criminal Division, DOJ, after the Northern District of Georgia raised concerns through its memos of May 4, 1990 and May 7, 1990 that USDA-OGC had failed to acknowledge evidence disclosed in prior briefings. DOJ, the Northern District of Georgia and USDA-OGC again briefed USDA-OGC in their DC office on May 29, 1990, providing extensive investigative details and handout materials.

This memo to file was prepared after learning that Northern District of Georgia briefings of USDA-OGC were a subject of inquiry during recent congressional hearings.



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
SOUTHEAST REGION
401 W PEACHTREE STREET NW
ATLANTA, GA 30365-3520

DATE: June 8, 1992

REPLY TO
ATTN OF: At-720-2

SUBJECT: October 11, 1989, Briefing of
Kevin Brosch, OGC and
Larry McElvain, FAS

TO: Richard F. Allen
Deputy Assistant Inspector General
for Investigations
Washington, D.C.

As requested by Deputy Assistant Inspector General Richard F. Allen on May 22, 1992, this is a summary of the briefing provided to Kevin Brosch, Attorney, Office of General Counsel (OGC), and Larry McElvain, Foreign Agricultural Service (FAS), USDA, by Assistant United States Attorney (AUSA) Gale McKenzie on October 11, 1989. This summary is based on notes taken by Special Agent A. Kenneth Golec and Supervisory Special Agent William R. Stover during the October 11 briefing. This summary presents topics that are relevant to a State Department memorandum of conversation, dated October 13, 1989, which was released as part of the March 30, 1992, statement made by Congressman Henry Gonzalez published in the Congressional Record. The memorandum of conversation documented a meeting between Frank Lemay, Special Assistant to the Under Secretary for Economic Affairs, State Department; Tom Conway, Associate General Counsel, OGC, USDA; Peter Bonner, Attorney, OGC, USDA; and Brosch, Attorney, OGC, USDA; and McElvain, FAS, USDA.

This memorandum is organized by topics shown in the Congressional Record.

Payments

Our notes show that AUSA McKenzie advised Brosch and McElvain that the investigation found Iraqi telexes to exporters which requested the payment of consulting fees to Matrix Churchill, an Ohio based company. Matrix Churchill is owned by TMG Engineering, a holding company based in England with ownership traced back to Iraq. AUSA McKenzie said that a witness was willing to testify that consulting fees were paid to Matrix Churchill. AUSA McKenzie also advised that Matrix Churchill was under investigation for providing missile technology to Iraq.

The Congressional Record showed:

"Available information indicates that the GOI required exporters to pay a substantial 'consulting fee' to an Ohio based company named Churchill Matrix. The US Attorney has found that Churchill Matrix has its headquarters in Great Britain and is a wholly owned subsidiary of TMG, a GOI fully owned holding company. Some information has been developed that Churchill Matrix has been involved in supplying military hardware to Iraq."

Richard F. Allen

2

After Sales Services

AUSA McKenzie advised Brosch and McElvain that generally any exporter who sold to Iraq had to pay after sales considerations to Iraq. AUSA McKenzie said that it appeared BNL-Atlanta officials had knowledge of kickbacks paid by exporters. AUSA McKenzie asked if an exporter paid a \$350,000 kickback to a BNL-Atlanta official for assistance in a CCC guaranteed sale, could CCC void the guarantee.

McElvain stated at the October 11, 1989, briefing that during the 1988 negotiations with Iraq, U.S. negotiators told the Iraqis in general terms that, "It was not in the spirit of the GSM program to require after sales considerations." According to McElvain, the Iraqis told the USDA negotiators that they would not request after sales considerations. Brosch said that Iraqi officials have claimed that in Iraq it was a common practice to have after sales service contracts.

In response to AUSA McKenzie's question, Brosch said that exporters are only permitted to represent the net value of the commodity for the CCC guarantee. Brosch said that if a \$350,000 kickback payment was included in the commodity value for the CCC guarantee, the guarantee could be voided. A guarantee could be found void if a bank knew that kickbacks were made to make the sale. The agreement could also be voided if the bank had knowledge of any consulting fees or allowances that were not netted out of the guarantee. As an example, if there was a \$5 million commodity transaction that included a \$100,000 allowance for truck parts, the \$100,000 had to be netted out and the CCC guarantee issued for \$4.9 million.

The Congressional Record showed:

"The GOI reportedly required exporters participating in CCC guaranteed exports to Iraq to provide 'After Sales Services.'... The GOI was told by USDA about 18 months ago that these practices were illegal but they continued. The problem with these services, as with the payments, is that exporters figure the cost of the services into the declared value of the commodity sale. The upshot is that CCC is again guaranteeing financing of both commodities and non-commodity goods.

"In both the required fee payments and the after sales services it is the exporter who is liable under US law for falsifying documents given to the USA. ... The GOI has admitted to using both practices and sees both as 'good business practice.'"

Richard F. Allen

3

Diversions of CCC Guaranteed Funds/Commodities

AUSA McKenzie questioned Brosch about the issue of Iraq purchasing more commodities than it needed. She told Brosch the investigative team was looking into the possibility Iraq bartered commodity products.

Brosch stated that he was unaware of any CCC regulations against Iraq bartering the commodities after they were received in Iraq. If the commodities were bartered before reaching their specified destination, there would not be a bill of lading to support the claim and CCC would not have to honor the guarantee. Per 7 CFR 1493.811 there is a CCC requirement to provide an ocean carrier or intermodal bill of lading.

McElvain clarified that DGC has taken the position that a bill of lading does not have to show a country of destination, if the country of destination is a landlocked country. The CCC would depend on the exporter's certificate of destination to show where the commodity was going. CCC did not ask for the land carrier bill of lading/transport for goods going from a port to a landlocked country.

The Congressional Record showed:

"Although additional research needs to be done, it appears more and more likely that CCC guaranteed funds and/or commodities may have been diverted from Iraq to third parties in exchange for military hardware. McElvain reported that although, in the cases where adequate documentation exists, CCC commodities can be traced as far as Jordan and Turkey, in many cases it is not clear that they ever reached Iraq.

Nuclear Related Equipment

AUSA McKenzie said that Matrix Churchill was under investigation for providing missile technology to Iraq. AUSA McKenzie used specific terminology, "nuclear fuel compactor and nose cone burr," in describing the ongoing investigation regarding the government of Iraq's use of BNL-Atlanta financing to acquire military related equipment.

The Congressional Record showed:

"USDA's Brosch noted that the US Attorney said there was some indication that diverted funds (and possibly direct bank lent funds) were used to procure nuclear related equipment. Noted in particular were a 'nuclear fuel compounder' and a 'nose cone burr.' Here the evidence of CCC diversion is not fully developed by the case remains open. DOD is apparently investigating this aspect of the problem."

Richard F. Allen

4

Additional Allegations

AUSA McKenzie advised that exporters bought commodities at low prices and sold the commodities at inflated prices to Iraq with BNL-Atlanta financing.

Brosch said that FAS did not care if the exporters got the best selling price for commodities sold to Iraq. FAS assumed the market would dictate a fair selling price. Brosch said that CCC did not do price reviews to see what prices exporters charged under the GSM programs.

McElvain said there was no question that CCC program monitoring would be beefed up. McElvain did not know to what extent price monitoring would be looked at.

AUSA McKenzie cited examples of non-US origin seeds, tobacco, and sugar which exporters sold using BNL-Atlanta financing guaranteed under the GSM programs. AUSA McKenzie also stated that the investigation would include GSM guarantees where the sale price appeared below the U.S. market price for the commodity sold.

AUSA McKenzie advised that the investigative team suspected that non-agricultural products could have been shipped to Iraq under the guise of the CCC GSM guarantee programs. This allegation was going to be looked into during the investigation.

The Congressional Record showed:

"Brosch and Conway said that the US attorney is looking at additional allegations in the BOLA scandal. These include allegations of substantial over-pricing of commodities guaranteed under CCC; inclusion of non-U.S. origin commodities in guarantee program shipments; and, shipment of equipment under CCC commodity guarantee financing."

It should be noted that AUSA McKenzie and Special Agent Art Wade of USDA-OIG provided other briefings to the OGC prior to the October 13, 1989, OGC meeting with the State Department.

A. Kenneth Golec
A. KENNETH GOLEC
Special Agent

William R. Stover
WILLIAM R. STOVER
Supervisory Special Agent

REDACTED

9.7

DAILY LOG - BNL INVESTIGATION

October 11, 1989 - BNL

9 - 12 a.m. Larry McElvain, Kevin Brosch, Ken
Golec. Bill Grover Meeting

(Joe Hardy had speech, unable to attend)

- confirmed Iraqi admissions regarding "after sale services"
- confirmed \$8 warning against such practices
- will request Iraqi documents reflecting such payments by US companies/BNL funded companies
- such kickbacks would render CCC guarantee void
- BNL must show B/L to final destination (ie Iraq) to collect on CCC guarantee if there is default. To date, BNL has no such Bill of Lading in any CCC guarantee files. See 7 CFR 1493.8
- CCC will not honor guarantees on non US commodities
- not material to CCC whether products priced well above market with profits all to "bedroom brokers"
- offered Iraqis only \$400,000,000 on Thursday, May 4th full \$1.2B soon due to Congressional pressure over weekend
- Secretary of Agriculture and Undersecretary for International Trade and Commodities (Crowder) wish case top be investigated with all due dispatch. Secretary may so direct IG who can put more agents on case in addition to 2 full-time USDA Special Agents.
- Congress has mandated that \$5B must be committed to CCC guarantees in prog#102 and \$500M in prog#103 for next year.

Source: Dept. of Justice

ACR Draft 19 April 1990

LIST OF "IRAO" DATES IN ACR'S CALENDAR

- October 12, 1989 Meeting with Crowder regarding Banca Nazionale del Lavoro(BNL)/CCC.
- ~~September 26, 1989~~ Raul and OGC attorney (Thomas V. Coaway) meet with Mike Young, Deputy Legal Advisor at the State Department to discuss Iraq. Meeting took place in Raul's office. (State's Legal Advisor, Abe Sofaer, requested that we brief his Deputy because, at this point, State was very interested in pressing forward with the credits for Iraq, while USDA and the NAC were more anxious about it. He wanted a better sense of the issues and concerns.)
- October 26, 1989 Raul receives call from Steve Danzansky at the White House (Director of Cabinet Affairs and a friend of Raul's from Reagan White House days); Danzansky asked that the offer for the credits to Iraq be put on hold for the moment.
- Raul requests research regarding the NAC process and how international credits are approved; Raul spoke with Chris Goldthwait at FAS about this.
- Raul meets with Danzansky, Grady of OMB, Robin Ross of Justice, Nick Rostow of NSC and John Schmitz of White Counsel's office to discuss the Iraq situation and the nature of the NAC process.
- October 31, 1989 Raul met with Crowder to discuss Iraq.
- Raul follows up with Danzansky regarding Iraq.
- November 3, 1989 Raul consulted with USDA and other agency personnel regarding Iraq including OMB, White House, Treasury, Justice and NSC.
- November 6, 1989 Raul scheduled to brief OMB regarding Iraq (ACR is not certain this meeting took place.)
- Raul spoke with Snead (OIG) regarding Iraq; Raul is assured by OIG that they have no information suggesting USDA should not extend additional credits to Iraq (Snead reconfirmed this in a second telephone call later that day.) (OIG has reconfirmed this repeatedly, including up to the present time.)

Source: Alan Raul, U.S.O.A.

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CHRONOLOGY

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- November 7, 1989 Raul accompanied Parnell to meet with Robson to discuss Iraq.
Raul spoke with Executive Assistant to the Attorney General Robin Ross to discuss criminal investigation of BNL situation.
- November 8, 1989 Raul accompanies Parnell and Crowder to NAC meeting on Iraq chaired by Robson (NAC approves credits).
- November 16, 1989 Raul has personal lunch with Danzansky.
- November 22, 1989 Raul thanks Robin Ross at Justice for his cooperation in coordinating with USDA on Iraq.
- December 1, 1989 In a totally unrelated meeting at the State Department, the standing group of the "General Counsels Consultative Group" meets to discuss issues of general interest. Iraq does not come up. The meeting was conducted at State because it rotates around the departments. It is chaired by either the White House Counsel and/or an Assistant Attorney General from Justice.

Raul speaks with Robin Ross of Justice (he is not aware of anything new on Iraq).
- December 4, 1989 Raul meets with OGC attorney to discuss a number of issues regarding Iraq raised by a Treasury Department staff attorney (no current record of what those issues might have been; but this meeting was of no particular significance other than as an entry in Raul's calendar).
- December 6, 1989 Raul advised Parnell regarding status of criminal investigation regarding BNL.
- December 11, 1989 Raul advises Parnell regarding update of status on BNL situation.
- December 12, 1989 Raul meets with Crowder, Conway and Brosch regarding Iraq. The conversation centered around OGC's administrative review of certain exporter records.

CHRONOLOGY
Page 3

December 18, 1989 Raul accompanies Crowder to meet with Under Secretary of State Dick McCormack to discuss Iraq situation.

Raul speaks with Gene McAllister at State and Ede Holiday at Treasury regarding Iraq. (McAllister is Assistant Secretary of State for Economic and Business Affairs and a personal friend of Raul's from Reagan White House days.)

December 21, 1989 Raul and Crowder meet with the Secretary. (Iraq is possible discussion topic.)

Raul briefs Jay Bybee in White House Counsel's office regarding Iraq. A paper has been prepared for Senate Agriculture Committee staff describing developments on Iraq. Bybee indicates paper is okay for transmission to the Hill. OGC prepared this paper.

January 2, 1990 Raul meets with Crowder and Brosch regarding Iraq.

Raul spoke with Bob Grady of OMB regarding Iraq.

Iraq memorandum is sent to Senate Agriculture Committee staff (approx. date).

January 12, 1990 Jay Bybee of the White House Counsel's office asks to be given a telephone call if there are any significant developments regarding Iraq.

January 22, 1990 Raul calls Ede Holiday at Treasury regarding Iraq.

Iraq memorandum prepared for Raul by Conway and Brosch.

January 24, 1990 Raul meets with Conway and Brosch regarding Iraq.

Raul meets with Ede Holiday regarding Iraq.

Raul meets with Crowder regarding Iraq.

OIG advises Raul that criminal investigation at this point does not involve any counts involving USDA or CCC. Basic case involves bank fraud. There is a possibility that exporters provided faulty data to CCC, but very unclear at this point.

CHRONOLOGY

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- January 24, 1990 Raul calls Robin Ross at Justice to check whether there is anything new regarding Atlanta criminal investigation.
- Raul spoke with Abe Sofaer at State regarding a request to Iraq that they cooperate with USDA's administrative investigation. Sofaer agrees that this is a good idea and asks to see a draft of Raul's memorandum requesting that State and Justice cooperate in making this request of Iraq.
- (Approx) Raul discusses Iraq with Snead and Rush of OIG.
- January 30, 1990 McAllister at State advises Raul that the idea of seeking Iraq's direct cooperation sounds okay.
- Raul sends draft of memorandum requesting State and Justice coordination on requesting information from Iraq to Sofaer and Ross.
- February 1, 1990 In a totally unrelated meeting, the General Counsels Consultative Group reconvenes. The subject of Iraq does not arise. (Meeting takes place at Justice.)
- February 2, 1990 Snead of OIG advises Raul that he has no problem with Raul's memorandum requesting State and Justice coordination on approach to Iraq.
- Sofaer responds that Raul's memorandum is okay.
- February 5, 1990 Bob Mueller in Robin Ross' office advises Raul that Iraq memorandum is okay.
- February 8, 1990 Ede Holiday at Treasury advises Raul that either she or a Treasury Assistant Secretary will convene a sub-NAC meeting to receive an update regarding the status of USDA's administrative review.
- Raul speaks with Sofaer and Holiday regarding the memorandum on the approach to Iraq.
- February 12, 1990 Senate Agriculture Committee General Counsel Jim Cubie telephones Raul and, among other things, mentions that he feels he is not getting enough information on Iraq.

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CHRONOLOGY
Page 5

February 15, 1990 Raul meets with Veneman and others regarding Iraq.

February 20, 1990 Raul, Crowder and Brosch have breakfast with Safire.

Raul meets with Crowder regarding Iraq.

Raul meets at State Department with Sofaer, Holiday and Mueller and/or Mark Richard from Justice at the State Department regarding Iraq. Also attending from USDA were Snead, Goldthwait and Brosch. The subject of the meeting concerned Raul's memorandum that State Department direct a request to Iraq that they cooperate with USDA's administrative review and that certain specific questions be put to Iraq in that regard.

Sofaer requests that USDA prepare the specific questions that could be submitted to Iraq as part of their cooperation regarding USDA's administrative review. The questions should be circulated to Justice and State.

Raul calls Sofaer and Holiday to clarify a point raised at the meeting at State. Raul confirmed that USDA planned to act deliberately regarding any second tranche of credits for Iraq. USDA would not be governed by any 10-day-to-two-week time frame regarding approval of the second tranche.

Raul speaks with Abe Sofaer at State regarding status of criminal investigation regarding BNL.

February 21, 1990 Raul accompanies Crowder to testimony on Hill (Raul believes Iraq was raised by Senator Leahy at this testimony on USDA's international programs; Raul advises that USDA's background letter for the committee not be made public given the sensitivity of pending investigations.)

Raul called Bob Mueller at Justice regarding Iraq.

Raul shares draft of proposed information letter to Leahy with State, Treasury, Justice, White House and OMB for review and comments.

February 22, 1990 Raul attends sub-NAC meeting with Veneman and Brosch. The meeting is convened and chaired by Treasury.

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- February 23, 1990** Raul meets with Crowder regarding Iraq.
- March 1, 1990** Raul briefs Crowder regarding status of criminal investigation involving BNL.
- March 2, 1990** Raul briefs Ede Holiday regarding information from Justice on Iraq generally (not just GSM) via secure telephone.
 Raul briefs Secretary regarding information from Justice regarding Iraq.
- March 9, 1990** Raul meets with Crowder and Snead regarding Iraq.
 Raul briefs Rostow regarding information from Justice on Iraq via secure telephone.
 Raul speaks with Ede Holiday regarding Iraq.
- March 12, 1990** Raul meets with Atlanta U.S. Attorney, officials from main Justice and Brosch regarding Iraq.
- March 13, 1990** Raul speaks with Jay Bybee in White House Counsel's office via secure telephone regarding information from Justice concerning Iraq.
 Raul speaks with Rostow regarding Iraq.
 Raul meets with Crowder regarding Iraq (twice).
 Raul speaks with Sofaer, Mike Young, and Bob Mueller from Justice, Bob Damus from OMB and Jean Archibald and Marilyn Muench from Treasury. (Subject concerns briefings from Justice.)
- March 15, 1990** Raul advises Brosch to revise Iraq letter since USDA approach to Iraq will now proceed on separate track from Justice investigation.
 Raul speaks with General Counsel for the Federal Reserve regarding his perspective on bank fraud at BNL.
 Raul speaks with Congressman Skeen regarding Iraq GSM exports. (Skeen asks to be kept up to date on any new Iraq developments.)

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CHRONOLOGY
Page 7

- March 15, 1990** Raul meets with Iraqi Ambassador in Crowder's office. Ambassador agrees that Iraq will cooperate with USDA request for a meeting to ask specific questions as part of our administrative review.
- April 2, 1990** Raul meets with Crowder and Shipp regarding Iraq.
- Raul checks with Justice regarding timing of Iraq indictments.
- Raul takes call from Congressional staffer Brad Shinn regarding Iraq.
- April 4, 1990** Raul meets with Under Secretary of State McCormack and Crowder to discuss Iraq.
- Raul speaks with Treasury General Counsel Ede Holiday, who suggests that Robson suggests broad Congressional briefings.
- Raul speaks with Parnell and Crowder.
- Raul discusses upcoming OGC/FAS trip to Baghdad with Crowder.
- April 9, 1990** Raul meets with Crowder.
- Raul meets with State regarding the provision of our letter setting forth specific questions to the Iraqi Ambassador in Washington. (State advises we should provide it.)
- April 10, 1990** Raul meets with Crowder regarding Iraq.
- April 12, 1990** Raul attends "PCC" at State Department chaired by Assistant Secretary John Kelly regarding Iraq. Paul Dickerson of FAS is principal USDA representative at the meeting.
- April 13, 1990** Raul meets with Brosch, Veneman, Shipp, Dickerson, Goldthwait, and Jeff Rush of OIG regarding upcoming OGC/FAS trip to Baghdad.
- USDA press release issued.

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- April 18, 1990 Raul speaks with Congressman Skeen to advise of USDA's press release regarding GSM credits for Iraq.
- Raul meets with Holiday and Treasury, and State Department representatives to discuss Iraq. Meeting is requested by Treasury to provide Robson with an opportunity to ask about Congressional briefings.
- April 19, 1990 Raul meets with Veneman, Shipp, et al. regarding response to *New York Times* regarding Iraq.

United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D C
20250

004.003

INFORMATIONAL MEMORANDUM FOR SECRETARY TEUTER

SUBJECT: Iraqi Credit Consultations

BACKGROUND:

The Iraqi delegation entered negotiations Thursday, October 5 with the CCC. Iraq requested a total \$1.2 billion of GSM-102/103 financing for FY 1990. At the outset of consultations USDA had evidence of possible improprieties in connection with the program, primarily as a result of the Banca Nazionale del Lavoro (BNL) - Atlanta affair. [Our position was to provide an initial \$400 million until the investigation of BNL, which has financed approximately \$720 million of past CCC business, was completed. Despite this offer, negotiations were stalemated; subsequently, further information obtained by USDA investigators in Atlanta suggested that negotiations be suspended until sufficient information is available to protect the integrity of the GSM-102 credit guarantee program.]

On Thursday, October 12, because additional concerns were uncovered in Atlanta, USDA informed the Iraqi delegation that we felt best that consultations be suspended pending further notification. Moreover, the Iraqi Minister of Trade instructed the team to return to Iraq today.

FYI. USDA has evidence of the solicitation of after-service fees. Other possible improprieties concern overpricing, non-U.S. content, and non-delivery to Iraq on some GSM-102 sales contracts. These allegations, if true, would constitute violations of regulations governing the GSM programs. Moreover, because exporters are required to make certifications, both with respect to price and U.S. content, these problems may have resulted in miscertifications which would constitute a violation of federal law.
END FYI.

Talking Points:

1. We recognize that Iraq is an important market for U.S. agricultural commodities. Questions have been raised regarding possible improprieties relating to CCC programs, possibly as a result of the Banca Nazionale del Lavoro (BNL) scandal. However, at this time there is only limited and indirect evidence of Iraqi Government involvement.
2. Because of these concerns about the program, we offered to announce an initial level of \$400 million in GSM-102 credit guarantees pending resolution of this problem. However, the Iraqi delegation continued to press for a higher level. Since USDA and Iraq delegation were unable to reach agreement, negotiations were suspended.
3. Both delegations agreed to resume discussions later in the year once the issue of possible improprieties relating to CCC programs are resolved.

Secretary of State Baker's October 13, 1989 Senior Staff Meeting

The following page contains notes taken by a senior State Department official on October 13, 1989 at Secretary of State James Baker's daily senior staff meeting. As the preceding memorandum to Secretary of Agriculture Clayton Yeutter reveals, on October 12, 1989 the Department of Agriculture had decided to withdraw its offer to Iraq of \$400 million in credit guarantees. This decision was based on information gained by USDA attorneys during their meeting with Assistant U.S. Attorney Gale McKenzie in Atlanta on October 11, 1989. McKenzie informed USDA of evidence of criminal complicity of Iraqi government officials in a multibillion fraud scheme, the purchase of nuclear-related equipment with scheme proceeds, and numerous Iraqi attempts to corrupt the CCC program.

The senior official informed the Banking Committee that his notes represent Secretary Baker's response to being told of USDA's decision to withdraw the offer of credit guarantees to Iraq. The notes read:

"USDA-- w(it)hd(ra)w 400 (million dollars) is step in wrong direction -- get it back on to the table."

Secretary's
Senior Staff Meet.
8/10/13

0840 JTB
A. ~~JTB~~

B. USDA — WOW 400 is stepping in wrong direction — get it back on to the table..
C. offer is in limbo —

Order:

- o unlimbo the 400
- o Say draw the 400
resolve our all level - ASAP.
if drags on, will ask JTB.

(9)

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MEMORANDUM OF CONVERSATION

- DRAFT. 920254
7472

DATE: October 13, 1989

SUBJECT: USDA Comments on Investigations of Iraq and the
Banco Nazionale del Lavoro, Atlanta Branch, Scandal

DISTRIBUTION:

E: Richard T. McCormack, Under Secretary of State for
Economic Affairs.
Sam Hoskinson, Executive Assistant to the Under
Secretary of State for Economic Affairs

L: Abraham D. Sofaer, Legal Adviser

NEA: Jock Covey, Acting Assistant Secretary

EB: Eugene McAllister, Assistant Secretary
, Office of Development Finance

PARTICIPANTS: State: Frank Lemay, Special Assistant to the
Under Secretary for Economic Affairs

USDA: Tom Conway, Associate General Counsel
Kevin Brosch, Attorney, Office of the
General Counsel, F&S
Peter Bonrarr, Attorney, Office of the
General Counsel, F&S
Larry McElvain, Director of Export
Credits, CCC

LOCATION: Department of Agriculture, Office of the General
Counsel, Room 2307, South Building

Summary:

There are currently 10 separate investigations of Banco
Nazionale del Lavoro, Atlanta Branch (BDLA), lending activity
to Iraq. As investigators dig further into the paper morass,
more and more indications of significant wrong-doing on the
part of BDLA and Iraq are surfacing. It now appears that at a
minimum elements of the Government of Iraq (GOI) knew of the
illegal dealings of the BDLA but found it convenient to
continue using its good offices. Indications are that in

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addition to violating US banking laws, the BDLA's activities with Iraq may have led to diversion of CCC guaranteed funds from commodity programs into military sales either directly, through barter arrangements during transit, and/or through requiring fees to be paid on various transactions in violation of US regulations. In addition, payments required by Iraq of exporters wishing to participate in the Iraqi market may have been diverted into acquiring sensitive nuclear technologies. This has yet to be fully substantiated. End Summary.

The Investigations:

The FBI, Federal Reserve, Comptroller of the Currency, US Attorney, USDA Inspector General Office, DOD Inspector General Office, Georgia State Banking Regulators, US Customs, the IRS, and Italian Bank Regulators are currently all investigating Banco Nazionale del Lavoro, Atlanta Branch, lending activity to Iraq. As Brosch put it "The investigations are at the explosion state." As investigators begin to dig through the BDLA's records and as BDLA officers agree to cut deals with the US Attorney, we can expect further revelations of who knew what when.

USDA expectations are that the investigation could "blow the roof off the CCC." With reference to the CCC program the question is whether GOI officials were involved in breaking US law and CCC regulations. As Conway pointed out, the GOI knew fully that its dealings with the BDLA were not sanctioned by the Banco Nazionale del Lavoro home office. The GOI could have approached the home office for financing at any time. Because it did not do so, Conway said, "the US attorney believes the GOI was malefasant and involved."

Although most of the investigations are focusing on the illegal banking activities of the BDLA, USDA is looking at possible diversion of CCC guaranteed commodities during transit, illegal payments required by Iraq of exporters in order to enter the Iraqi market, and "After Sales Services" which require exporters to provide such items as trucks, spare parts and other agricultural and non-agricultural equipment as part of CCC deals. Companies that would not make payments and/or provide after sales services were apparently kept on a black-list and not allowed to participate in the Iraqi market. Violation of banking regulation is beyond USDA's scope; breaking CCC regulations is of paramount concern.

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Payments:

Available information indicates that the GOI required exporters to pay a substantial "consulting fee" to an Ohio based company named Churchill Matrix. The US Attorney has found that Churchill Matrix has its headquarters in Great Britain and is a wholly owned subsidiary of TMG, a GOI fully owned holding company. Some information has been developed that Churchill Matrix has been involved in supplying military hardware to Iraq. It is not clear if the fees required of exporters went to pay for the military purchases. Information indicates, but is not conclusive, that users of CCC program guarantees were forced by the GOI to pay the fees as well. If exporters did pay the fees, CCC was probably guaranteeing financing for both commodities and, through inflated pricing, the required additional payments.

After Sales Services:

The GOI reportedly required exporters participating in CCC guaranteed exports to Iraq to provide "After Sales Services". These services required exporters to provide, free of charge, various types of equipment and spare parts to Iraq. The GOI was told by USDA about 18 months ago that these practices were illegal but they continued. The problem with these services, as with the payments, is that exporters figure the cost of the services into the declared value of the commodity sale. The upshot is that CCC is again guaranteeing financing of both commodities and non-commodity goods.

In both the required fee payments and the after sales services it is the exporter who is liable under US law for falsifying documents given to the USG. If they can show that Iraqi officials were involved, conspiracy charges could be brought against all those involved. The GOI has admitted to using both practices and sees both as "good business practice".

Diversion of CCC Guaranteed Funds/Commodities:

Although additional research needs to be done, it appears more and more likely that CCC guaranteed funds and/or commodities may have been diverted from Iraq to third parties in exchange for military hardware. McElvain reported that although, in the cases where adequate documentation exists, CCC commodities can be traced as far as Jordan and Turkey, in many cases it is not clear that they ever reached Iraq. Where documents indicate shipments arrived in Baghdad, the timing appears improbable--shipments arrive in Baghdad prior to arriving at interim ports. McElvain and the USDA IG are

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concerned that commodities were bartered in Jordan and Turkey for military hardware. BDLA paperwork is so sloppy on this point that it may be months (or never) that we can reach a firm conclusion on the diversion issue.

Nuclear Related Equipment

USDA's Brosch noted that the US Attorney said there was some indication that diverted funds (and possibly direct bank lent funds) were used to procure nuclear related equipment. Noted in particular were a "nuclear fuel compounder" and a "nose cone burr." Here the evidence of CCC diversion is not fully developed but the case remains open. DOD is apparently investigating this aspect of the problem.

Additional Allegations:

Brosch and Conway said that the US attorney is looking at additional allegations in the BDLA scandal. These include allegations of substantial over-pricing of commodities guaranteed under CCC; inclusion of non-US origin commodities in guarantee program shipments; and, shipment of equipment under CCC commodity guarantee financing.

Conclusion and Comment:

Taken together the points discussed during the meeting indicate we should proceed carefully in urging the immediate provision of CCC guarantees to Iraq. If smoke indicates fire, we may be facing a four alarm blaze in the near future. This is particularly true given the intense scrutiny the CCC program has been under during the last year. McElvain indicated that there were 19 investigations of CCC this year and the "integrity of the program is now in question." USDA attorneys will be going to Atlanta for discussions with the US attorney during the coming week. Additional information on the various investigations will be available upon their return.

10/14/89

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RB

to: _____

 room: _____ date: 10/13/89
 Department
 of the Treasury
 Office of the
 Assistant Secretary for
 International Affairs
 Office of
 Trade Finance

No one requested this, but
 it seemed obvious we needed to
 do it.

We are also working on the
 response to ~~the~~ official's letter.
 (Fed Reserve



DEPARTMENT OF THE TREASURY
WASHINGTON

INFORMATION

ASSISTANT SECRETARY

MEMORANDUM FOR

THROUGH:

FROM:

SUBJECT: Credit Guarantees for Iraq in FY 1990

Issue

Treasury and *Fed Reserve* have opposed additional CCC credit guarantees to finance agricultural exports to Iraq until the implications of the Banca Nazionale del Lavoro (BNL) affair have been sorted out. Should *State* *officials* or others approach you to reverse the Treasury position, you should be aware that we (1) want to resolve issues surrounding the BNL affair by receiving assurances from CCC that they are taking steps to tighten their oversight of their program to avoid further BNL type problems, and (2) would be prepared to support an \$800 million program for FY 1990 for Iraq if the BNL affair is sorted out.

Background

The BNL Affair. In August the FBI found that substantial amounts of financing had been made available to the Government of Iraq by the Atlanta branch of Italy's state-owned BNL allegedly without authorization from the bank's central offices and off the books. Some of the credits may have supported illicit arms shipments.

USDA's Commodity Credit Corporation has guaranteed repayment by Iraq of some \$700 million of these credits for the purchase of US agricultural commodities. The *Justice Dept* investigation has brought to light potentially serious deficiencies in CCC procedures regarding foreign content and pricing (possibly allowing kickbacks to Iraqi officials).

Credit Guarantees for Iraq. *Fed Reserve* *Treasury* have opposed any programming for Iraq in FY 1990 without satisfactory assurances, which *State* has been unable or unwilling to give, that CCC problems brought to light by the investigations are being addressed. *State* with support from *EC* and other agencies, had proposed to the Iraqi buying team (which arrived in Washington October 5) an interim program of \$400 million for FY 1990.

State

- 2 -

Because of sharpened ^{Agriculture} concerns about BNL issues, and lack of Iraqi flexibility to accept a program less than a full \$1 billion in guarantees (as in the past two fiscal years), the buying team returned home October 12 with no program in place. We understand that USDA is now awaiting further information on developments in the investigation before going forward with a program in Iraq.

^{State} On October 6, the Iraqi Foreign Minister raised the issue with ^{official} who said he wanted a solution and would look into the matter immediately. Absent BNL issues, we prefer an \$800 million program because we want to start cutting back in Iraq due to creditworthiness concerns.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

DATE: October 20, 1989

TO: [REDACTED]

SUBJECT: CCC Program for Iraq

FROM: [REDACTED]

John Kuray spoke with Kevin Brosch, who is in the General Counsel's Office of the Department of Agriculture and who is responsible for the CCC program. He told John Kuray that he has made two trips to Atlanta to meet with the Assistant United States Attorney who is conducting the Banca Nazionale del Lavoro (BNL) investigation and to review documents concerning CCC transactions. Mr. Brosch stated that on neither trip was he accompanied by members of an Iraqi delegation who were in the United States to discuss the CCC program.

Mr. Brosch told us that he understands that the Iraqis traveled to Atlanta to meet with persons involved in the investigation. Prior to their trip to Atlanta, the Iraqis apparently believed the whole matter was "political". However, upon their return from Atlanta, the Iraqis gave the impression that they were convinced this matter was the subject of a serious investigation.

According to Mr. Brosch the CCC program for Iraq remains on hold until the situation in Atlanta is clarified. He said that his initial review of documents in Atlanta indicates that there is no convincing evidence that there is a problem with

- 2 -

the CCC transactions. Mr. Brosch also said that he has not uncovered evidence of payments to the Iraqis in order for sellers to participate in deals. He said that his review is only in its initial stages.

According to the Assistant United States Attorney, Gail McKenzie, there is evidence of payments being made to "consultants" who were controlled by the Iraqis. These payments remain one of the subjects of her investigation.

UNITED STATES GOVERNMENT
Memorandum

DEPARTMENT OF THE TREASURY
 UNITED STATES CUSTOMS SERVICE



DATE: OCT 20 1989

FILE: ENF-1-E:EO:ST:M JLL

TO : Assistant Commissioner
 Office of Enforcement

FROM : Director
 Strategic Investigations Division

SUBJECT: BANCA NAZIONALE del LAVORO [REDACTED]

The above cited case, currently under investigation by the Office of the RAC/Atlanta, is a multi-agency task force operation involving several jurisdictions. The BANCA NAZIONALE del LAVORO (BNL) is an Italian international banking firm with branch offices in numerous countries and cities to include Atlanta. BNL Atlanta's primary business, is the funding of export goods and commodity transactions. The case was opened as the result of allegations that two Atlanta based executives of the firm had provided 2.6 billion dollars in unauthorized and uncollateralized loans to American, British, and Italian firms involved in trade with Iraq and other countries. In addition, BNL is suspected to have provided loans to various firms for export to Iraq of missile related technology for use in the Condor II project.

At present, the agencies involved, in addition to Office of Enforcement, U.S. Customs Service, include Office of Foreign Assets Control, U.S. Treasury, The Federal Bureau of Investigation, The Internal Revenue Service, U.S. Department of Agriculture, Defense Criminal Investigative Service, and Examiners of the Federal Reserve Bank.

Coordination and control of the Task Force emanates from the Office of the U.S. Attorney, Atlanta. Present indications are that in addition to violations of laws within the jurisdiction of the agencies cited above, violations of The Export Administration Act, The Arms Export Control Act and Foreign Assets Control Regulations have taken place.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE MEMORANDUM

Date October 23, 1989To
From Subject Banca Nazionale del Lavoro -
Atlanta (BNL-A) update for week ending
October 20, 1989

The following matters were discussed by FRBNY and FRBA examiners with BNL-A Manager Luciano Silvestri and BNL head office inspectors.

- BNL-A records covering CCC guaranteed credits total \$733 million, however, CCC records show a total of \$662 million of guarantees issued in favor of BNL-A. This \$71 million discrepancy is being investigated by BNL-NY officers and Department of Agriculture agents working at BNL-A. CCC primarily guarantees the Rafidain Bank exposure.
- Mr. Silvestri indicated that BNL head office has developed information on a number of transactions which indicate the possibility of kickbacks between some companies located within the United States and the previous officers of BNL-A. Mr. Silvestri added that BNL unfortunately lacks evidence which might stand the test of legal proceedings. The following companies were mentioned.

Evro Magharib Inc., New York
Pitt Export Company, Greenville, North Carolina
Associated Instruments Company, Georgia
Servaes Incorporated, Indianapolis, Indiana
Rotec Industries Inc., Elmhurst, Ill.
- A group of companies which is also involved in questionable transactions with BNL is the Amman Resources Group, Amman, Jordan. The group includes at least six companies of which three are in the U.S. The principal of this group of companies, Mr. Dajani, has a close friendship with Mr. Dragoul, the ex-manager of BNL-A. Mr. Silvestri stated that Mr. Dajani is reportedly related to the Jordanian royal family and one of his relatives is connected with the Central Bank of Iraq. BNL has been in communication with Mr. Dajani who is in London. Mr. Dajani is reluctant to come to the U.S. but is expected to visit BNL's management in Rome.
- BNL's inspectors ceased performing operational duties at BNL-A this week and will concentrate on the review of all credit files, suspense items, profit and loss accounts. They will

- 2 -

also begin to reconstruct the accounts of Central Bank of Iraq, Rafidain Bank and Entrade going back to early 1987.

- Agents of the Department of Agriculture are investigating at BNL-A why some U.S. grown sugar shipped by Entrade was sold at a price between 10 and 11 cents to the pound. Price of U.S. produced sugar is approximately 19 cents, while non U.S. produced sugar is approximately 10 cents. These shipments were guaranteed by the CCC and there is a strong likelihood that the sugar was not grown in the U.S.
- An attorney for Entrade will be visiting the Assistant U.S. Attorney in Atlanta some time next week.
- There are indications that for several years Entrade paid \$25,000 per annum to Mr. Guadagnini, BNL's regional manager at the time, until mid-1987. He was replaced in August 1987, by Mr. Sardelli. Mr. Guadagnini, as we know, is on LBS's board of directors here in New York.
- The accounting firm of Ernst and Young has begun to work with BNL's auditors to review and develop the Atlanta Agency's internal controls and procedures. The primary task of the CPA firm is to reconcile all accounts at BNL-A by December 1989.
- Regional Manager Lombardi indicated that Banca d' Italia gave BNL a deadline of end of October to begin to implement new guidelines for all overseas offices of BNL to significantly strengthen internal controls.

██████████ and ██████████ reviewed in Atlanta outstanding and expired letters of credit (L/Cs) issued by the Central Bank of Iraq (CBI) and confirmed by BNL-A. All of the L/Cs reviewed were recorded on the grey books of BNL-A.

The dollar amount of L/Cs reviewed aggregated \$447.4 million, representing approximately 82 percent of total L/C's outstanding to the Central Bank of Iraq. In addition, a number of expired L/Cs issued by CBI totaling \$80.3 million were also reviewed. Disbursements made under these expired L/Cs were recorded as loans on the grey books of the bank. We undertook this review in an effort to determine the validity of the credits and the accuracy of the bank's internal records. However, nearly all of the files contained insufficient documentation and therefore, an assessment of the validity of the credits can not be made. Important findings include:

- A significant portion of the letters of credit are not supported with complete documentation, such as bills of lading, certificates of origin, packing lists, inspection certificates, shipping invoices, and in some cases, commercial invoices. Without the above, it is not possible to verify the legitimacy of the credits and the description of the merchandise being financed.

- BNL-A did not maintain a daily record summarizing letter of credit transaction details including L/C's issued and confirmed, payments received, commission and fee income collected, to support the general ledger system.

- In most cases, fees charged for advising, negotiating, and confirming L/Cs appear to be significantly below market rates. In some cases, it seems that no fees were collected by BNL-A to confirm L/Cs. BNL-A typically charged a total of 15 basis points for fees on L/Cs. By way of comparison, Manufacturers Hanover confirmed a cash collateralized L/C issued by the Central Bank of Iraq and charged 40 basis points.

In addition, examiners reviewed a limited number of CCC guaranteed letters of credit issued by Rafidain bank and confirmed by BNL-A. Information relating to these credits was provided to agents of the Department of Agriculture to assist in their on-going investigation.

* * * *

The activity of the Canadian subsidiary, BNL of Canada, was discussed with Regional Manager Lombardi. He indicated that no current information on the subsidiary's activity is available in New York. Mr. Lombardi added that next month he will be appointed to the board of directors of BNL of Canada. Mr. Lombardi's appointment should have taken effect earlier but due to the Atlanta problems, it was overlooked. Apparently the Canadian subsidiary has always reported directly to head office. According to Mr. Lombardi, two of the Canadian offices, Vancouver and Montreal do not engage in any trading activities. Toronto does a very limited amount of foreign exchange primarily to accommodate customer needs and no positions are taken. Mr. Lombardi believes that FX activity in Canada is very small.

cc: Messrs. Corrigan
Oltman
Patrikis
Spindler
Ms. Green
Messrs. Baxter
O'Sullivan
Ms. O'Neil
Messrs. Sabell
McQueensy
Schlindra

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Department of State

INCOMING

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"SENSITIVE" ABOUT ALLEGED CORRUPTION BY OFFICIALS (I.E., SADDAM HIMSELF IS AT THE HEAD OF THE ANTI-CORRUPTION CAMPAIGN). THEREFORE, AZIZ DECLARED, IRAQ IS "READY TO COOPERATE WITH THE UNITED STATES IN ANY MATTER NEEDING COOPERATION TO REACH THE TRUTH TO SOLVE THIS PROBLEM, ON THE BASIS OF SOVEREIGNTY OF IRAQ." AMBASSADOR NOTED THE SECRETARY'S HOPE THAT THE ISSUE CAN BE RESOLVED "QUICKLY" AND SAID HER LATEST INFORMATION MAY SUGGEST A RAPID SOLUTION.

5. CLEARLY INTENDING TO PROVIDE A SECOND GESTURE GIVING SUBSTANCE TO HIS DECLARATION OF IRAQ'S WISH FOR BETTER RELATIONS, AZIZ THEN SAID WE WOULD RECEIVE WITHIN A WEEK A "POSITIVE REPLY" REGARDING OUR COMPENSATION CLAIM FOR THOSE INJURED ON THE STARK (SEPTEL).

6. COMMENT: AZIZ WAS CLEARLY DELIGHTED WITH THE SECRETARY'S MESSAGE, AND WAS PERSONALLY PLEASED TO BE ABLE TO OFFER US POSITIVE RESPONSES ON TWO OF THE KEY ISSUES WHICH DIVIDE US, I.E., STARK AND THE CCC INVESTIGATION. FOLLOWING THE MEETING, U/S HAMDUN TOOK AMBASSADOR ASIDE TO MAKE SURE WE UNDERSTAND THE SIGNIFICANCE OF (SADDAM'S) DECISION TO RESPOND TO THE SECRETARY'S PERSONAL REQUEST FOR GOI COOPERATION ON CCC, AND TO ENSURE THAT WE REALIZE THAT "THE BALL IS IN WASHINGTON'S COURT" (I.E., IT IS UP TO THE USG TO PROVIDE SPECIFIC CHARGES FOR THE GOI TO INVESTIGATE). HAMDUN ALSO REITERATED THE GOI HOPE FOR VERY RAPID ACTION, SINCE THE MINISTER OF TRADE IS ANXIOUS

REGARDING GRAIN SUPPLIES FOR NEXT YEAR. GLASPIE

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Department of State

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United States Department of State
Washington, D.C. 20520

~~CONFIDENTIAL~~

ACTION MEMORANDUM *JK*
10/26

'89 OCT -1 P9:20

October 26, 1989

TO: The Secretary *SS*

8924995

'89 OCT-26 6:55 PM

THROUGH:

FROM:

SUBJECT: The Iraqi CCC Program

ISSUE FOR DECISION

Whether to push for a full CCC program for Iraq.

ESSENTIAL FACTORS

Over the last five years USDA's Commodity Credit Corporation (CCC) has guaranteed some \$4 billion in loans for U.S. agricultural exports to Iraq under its GSM program, which Iraq so far has repaid on schedule. This year, concern over possible Iraqi involvement in the scandal in the Atlanta branch of Italy's Banco Nazionale del Lavoro (BNL) caused USDA to withdraw its first, billion-dollar offer for FY90 and put forward instead an "interim" program for \$400 million. The Iraqis, believing so large a reduction would be widely viewed as a U.S. vote of no-confidence in their economy, rejected the 400 million. They hope we will come back offering the full program but also have begun to hedge their bet by looking into other sources of supply. Tariq Aziz raised the issue with you on October 6, and you promised to look into it personally.

Earlier this month, the President signed NSD-26, mandating pursuit of improved economic and political ties with Iraq. Since last year's cease-fire in the Gulf War, trade has become the central factor in this relationship. Iraq is now our ninth largest customer for agricultural commodities, and the U.S. is Iraq's largest supplier of non-military goods. Iraq has signalled the importance it places on the relationship by giving first priority to repaying CCC-guaranteed loans at a time when it faces severe financial difficulties. (Treasury and the Fed cite these difficulties -- Iraq has failed to make some payments on its \$30-40 billion debt to non-Arab creditors -- in opposing any FY90 CCC program for Iraq.) Our ability to influence Iraqi policies in areas important to us, from Lebanon to the Middle East peace process, will be heavily influenced by the outcome of the CCC negotiations.

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USDA's General Counsel has looked into the BNL investigation and L has spoken with USDA and independently with the US attorney's office in Atlanta. L believes the investigation is largely focussed on widespread, systematic banking fraud by persons working for BNL or under consulting relationships with BNL. It may also involve several high Iraq officials, though this is unclear. USDA, which has come under pressure from U.S. exporters, is prepared to reopen talks with Iraq, but leans toward a partial offer. We doubt the Iraqis would accept this, unless it includes a U.S. commitment to complete the program early next year. In view of the evidence available, L believes that, to wall off an FY90 CCC program from the BNL investigation, it is sufficient to exact Iraq's promise to cooperate in the investigation into past practices and to cooperate with USDA in establishing monitoring procedures and safeguards for future deliveries. The CCC contract could be discussed as a full program but include built-in, periodic reviews and related disbursement in tranches to ensure Iraqi compliance with CCC obligations and cooperation with the BNL investigation. In this regard, Tariq Aziz responded positively to your message of October 31 and -- in an unprecedented step for Iraq -- promised Ambassador Glaspie full cooperation in the BNL investigation. To date, no investigating agency has asked Iraq for help.

DISCUSSION OF OPTIONS

There is no point in going back to the Iraqis with a partial program they have already rejected, especially when it seems clear they would accept reviews and other reasonable safeguards. Offering a program of up to \$1 billion would strengthen relations with Iraq, in line with NSD-26, and help U.S. exporters. NEA and L favor. ED's first instinct is to give USDA leeway in negotiations, but ED supports on commercial grounds a program with safeguards, made available in tranches that could go up to the full amount.

RECOMMENDATION

That you telephone Clayton Yeutter to urge that we go forward rapidly with a CCC program, with safeguards and to be made available in tranches, that could go up to the full \$1 billion, provided the review process turns up no evidence Iraqi wrong doing. Talking points attached.

Approve _____

Disapprove _____

Attachment: Talking Points

UNCLASSIFIED

~~CONFIDENTIAL~~TALKING POINTS

-- The CCC program is crucially important to our bilateral relationship with Iraq. We strongly support your effort to reinstitute it.

-- Obviously we should not go forward with the program if we have substantial evidence of a pattern of serious violations of US law by high-ranking Iraqi officials. Our information about the investigation indicates that the prosecutor does not now intend to indict Iraqi officials.

-- On foreign policy grounds, we support a program of up to one billion, released in tranches, with periodic compliance reviews.

-- Given the allegations, we believe safeguards should be built in to ensure the alleged problems do not recur.

-- The Iraqi Foreign Minister, with whom I talked, has now pledged Iraq's cooperation with the investigation.

-- My legal adviser, Abe Sofaer, is prepared to work with USDA's lawyers to secure Iraqi cooperation in developing adequate safeguards for the Iraq CCC program.

-- With safeguards, I hope we can get this important program back on track quickly.

10/31

Cy:

Done. "I think we're seeing it the same way your guys are. I'll get into it." J.P.

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WASHINGTON

October 27, 1989

Mr. Secretary:

When this issue first emerged, office was screaming caution on our involvement in this CCC exercise with Iraq. Ten different U.S. Government agencies were investigating various aspects of potential fraud in Iraq's past CCC program, and no one really knew just how far and deep the corruption went.

I was then reluctant to advise you to proceed with this matter until we had an opportunity to dig deeper into the potential corruption, and until the Department of Agriculture had an opportunity to follow through on my suggestion to devise a new CCC program with Iraq that would insulate us against corrupt elements.

I gather that a sanitized CCC program with Iraq is devised. In the meantime the top GOI ministerial team associated with the CCC program has been removed. You also now have a formal recommendation from that we proceed on this matter.

Assuming that USDA finalizes a sanitized CCC program, I recommend that you assert to Yeutter the political and economic rationale for going forward with this whole program, by tranche, to the \$1 billion level. If we are comfortable with a \$400 million exposure, based on our new anticorruption safeguards, we ought to be comfortable with a billion dollar program.

From:

*Richard McCormack
Undersecretary of State
for Economic Affairs*



DEPARTMENT OF AGRICULTURE
OFFICE OF THE GENERAL COUNSEL
WASHINGTON, D.C. 20250

October 30, 1989

Honorable Stephen I. Danzansky
Deputy Assistant to the President
and Director, Office of Cabinet Affairs
The White House
Washington, DC 20500

By Hand

Dear Steve:

Attached is a paper prepared by the Foreign
Agricultural Service regarding the GSM credit guarantee
program. The paper describes the process by which country
credits and individual transaction guarantees are approved.
It also discusses the situation with respect to the Iraqi credit.

As you know, Undersecretary Crowder is eager to
resolve the new credit to be offered to Iraq quickly. Please
let me know if you (or any other members of the group you
assembled last week) have any questions on this, or if I can
provide further information on the situation with the Banca
Nazionale del Lavoro.

Best regards.

Sincerely,

Alan Charles Raul

cc: Robert R. Grady

USDA Position on Iraq1. Balancing Risks.

USDA is currently evaluating its GSM-102/103 Export Credit Guarantee Programs for Iraq for FY 1990. This evaluation involves prudent balancing of political and financial risks against marketing opportunities and benefits.

On the one hand, Iraq represents a very carefully nurtured \$1 billion market for U.S. agricultural exports. Failure to reach an agreement with Iraq on a GSM program for FY 1990 risks loss of that market and a number of potential spillover effects: alienation of key sectors of U.S. agriculture who have been participating in this GSM market; negative impact on the U.S. trade balance; economic hardship in several agricultural sectors; and impairment of the carefully measured political rapprochement which the United States has been developing with one of the richest and most influential Arab States.

On the other hand, Iraq's general creditworthiness appears to have deteriorated somewhat in the past several years. Although Iraq has continued to pay its U.S. debt, it has not met its payments to some other creditor nations. In addition, Iraq has recently come under scrutiny for possible involvement in the Banco Nazionale del Lavoro (BNL) affair in Atlanta, where there has apparently been a major case of bank fraud centering on unauthorized loans to Iraq by the Atlanta branch of BNL, estimated at \$1.7 billion. While the BNL investigation is in its early stages, there have been suggestions of possible impropriety with respect to BNL's GSM loan portfolio, which is approximately \$750 million.

Investigators from the Office of the Inspector General have been detailed to work with the United States Attorney in the BNL investigation. In the course of its recent negotiations with Iraq, USDA learned that there were numerous allegations of possible wrongdoing, potentially involving Iraq. Attorneys from the Office of General Counsel were sent to Atlanta to discuss the matter with the assistant U.S. Attorney in charge of the case, to meet with the OIG personnel involved in the investigation, and to review available bank records. Those attorneys report that, as of the current stage of the investigation, no hard evidence has yet been uncovered which indicates misuse of the GSM program or wrongdoing by Iraq. As this stage, the allegations of impropriety appear to derive from theories of possible misuse hypothesized because of evidence of apparent wrongdoing uncovered in non-CCC loan transactions. At this juncture, however, the evidence developed in the case appears to center largely on bank fraud, although the investigation is still at an early stage.

Under the circumstances, a prudent and measured approach must be developed. At the current time, there has been no evidence developed to support allegations that Iraq has engaged in misuse of GSM programs, and so clearly discontinuation of the Iraq program would not be warranted. At the same time, when serious allegations are being made in the BNL investigation, a "business as usual" approach seems unwise. USDA believes that the prudent approach is to offer a measured program, announcing a large enough credit line to permit Iraq to continue purchases over the near term, while making every effort to assure that there have indeed been no program abuses. Associated with this, USDA will accelerate its own efforts to ensure future program integrity through improved management and regulation, including the development of a system of program compliance review.

-2-

2. Credit Program Development.

The GSM-102/103 programs are authorized pursuant to the general authority delegated to the Commodity Credit Corporation in section 4(f) of its Charter Act, to develop programs to assist in the export of U.S. agricultural products. Congress has directed that CCC issue global export credit guarantees for FY 1990 of no less than \$5 billion for the GSM-102 program, and no less than \$500 million of the GSM-103 program.

Program development consists of a 3-stage process: identification of marketing opportunity, analysis of financial risk, and negotiation and announcement of the program terms and conditions. For a country program such as Iraq's, where coverage has been established and used for a number of years, a program will generally build on the experience gained from previous years' operation, and be modified to meet changing conditions as different circumstances may warrant. The Iraq program has grown steadily in the last 5 years -- with the encouragement of the previous Administration's General Sales Manager -- expanding both the volume and the variety of U.S. agricultural exports to that country.

Globally the program development process begins in late May or June of each year, when the Foreign Agricultural Service's (FAS) commodity divisions develop specific country and commodity proposals to use export credit guarantee coverage to support exports to targeted countries. The proposals assign rough priorities of market development potential to each country/commodity line item. FAS/Export Credits reviews those commodity export proposals, and recommends adjustments as necessary to fit country profile information, including financial or debt situations, knowledge of country import intentions, the possibility of concessional food aid financing of similar exports, known concerns of other Washington agencies, etc. The two program areas of FAS reconcile differences in recommended country proposals through a brief series of meetings, and arrive at a projected matrix of country/commodity programs consistent with the available global program ceiling.

The process continues with preparation by the FAS/Trade and Economic Information Division (TEID) of individual country financial and economic analyses. TEID prepares the analyses according to a schedule requested by FAS/Export Credits; the schedule is based on the timing of upcoming country credit consultations. Such consultations are usually scheduled with the major credit guarantee program participants, such as Korea, Algeria, Mexico, and Iraq. For the FY 1990 consultations the TEID qualitative analysis for Iraq noted such aspects as Iraq's oil dependency, the heavy debt load resulting from the 8-year war with Iran, a reversal in 1987 and 1988 of the negative growth rates which had persisted during the previous 4 years, and Iraq's attitude of favoring repayment on existing debt to countries offering further credits, and the importance of credit in gaining market share. In preparing for consultations with Iraq, FAS/Export Credits personnel also attending briefings given both by Eximbank and the Central Intelligence Agency on the country's economic and financial situation.

-3-

As part of the financial analysis of each country's program, all credit proposals are submitted to the National Advisory Council on International Monetary and Financial Policies (NAC) for review. The NAC is chaired by a nonvoting Treasury Department office, and includes voting representation by Treasury, the Federal Reserve, Eximbank, and the Department of State, among others. NAC review and comment resulted in favorable review of a program for Iraq at \$400 million, with the understanding that USDA would like seek a higher level later in the year if Iraq were to be found blameless in the BNL affair. This was substantially smaller than the \$1 billion program established and operated during the prior year.

FAS/Export Credits prepared a package of briefing materials, including the TEID analysis, for the use of the new General Sales Manager in conducting credit consultations, which were scheduled for October 5 and 6, and extended through October 10. In accordance with its NAC proposal the USDA offered \$400 million in coverage, intended by USDA as an intermediate level to provide export credit for immediate needs, while the BNL affair moved toward resolution. Among the topics of negotiation was a collateral issue raised by USDA: the Iraqi practice of requesting after-sale "service," typically in the form of non-agricultural merchandise. We believe we made progress on the latter issue, obtaining Iraqi agreement to avoid post-sale requests, but the GOI representatives clearly had expected a program in the \$1 billion range of previous years' coverages. Iraq stressed, throughout the consultations, its history of payment on loans made pursuant to the GSM program, and its intention to repay its loans in the future. They were not and still are not prepared to agree to a \$400 million level, unless USDA could provide specific examples of wrongdoing by Iraqi importers. The consultations foundered on that aspect and were adjourned, to be resumed in Baghdad when the situation was clarified. At present the Iraqi delegation is back in Baghdad, there is no coverage in place for export credit financing of agricultural commodities to Iraq in FY 1990, exporters are flooding both USDA and the offices of their Members of Congress with letters of protest, and there is yet no agreement to propose a date on which to continue bilateral consultations, whether in Washington or in Baghdad.

3. Registering a Sale for GSM Coverage.

After a credit guarantee program has been announced for a country such as Iraq, an exporter of U.S. agricultural commodities may apply for GSM-102 or GSM-103 coverage to CCC. In order to submit an application for such coverage, the exporter must have an firm export sale with a buyer in the foreign country. The application submitted to CCC must include the following:

1. Name of the destination country.
2. Name and address of importer.
3. Intervening purchaser, if any, and a statement that the commodity will be shipped directly to the foreign importer in the destination country.
4. Date of sale.
5. Exporter's sale number.
6. Delivery period.

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7. Kind and description of the commodity.
8. Quantity.
9. Contract loading tolerance.
10. Port value, including upward loading tolerance.
11. Guaranteed value.
12. Guarantee fee.
13. The name and address of the foreign bank issuing the letter of credit.
14. Estimated payment schedule for each shipment to be made under the export credit sale showing estimated principal payment due dates and amounts due.
15. A certification that the commodity to be exported under the export sale for which a payment guarantee is requested will not consist of any imported agricultural commodity.

Upon receiving the above information, an application for a payment guarantee may be approved as submitted, approved with modifications, or rejected. In the event the application is approved, a payment guarantee will be issued in favor of the exporter. The proceeds that could become due and payable by CCC under the payment guarantee as result of the foreign bank's failure to make payment under its letter of credit or related financing obligation may be assigned by the exporter to a financing institution in the United States. The purpose of CCC's guarantee is to expand exports of U.S. agricultural commodities by protecting the holder of CCC's guarantee against risk of non-payment by the foreign bank.

Exports made under the payment guarantee must be reported to CCC within 30 days from the date of export. This report must include the following:

1. Payment guarantee number.
2. Date of export.
3. Exporter's sale number.
4. Exported value.
5. Kind, quantity, and description of the commodity exported.
6. Statement that the agricultural commodities of the grade, quality, and quantity called for in the exporter's sales contract with the foreign importer have been exported to the country specified in the payment guarantee.
7. A statement that the exporter has documents evidencing the obligation of the foreign importer and that such documents will be retained until 3 years after the final installment due date as called for in the payment guarantee.
8. A statement that letter of credit has been opened in favor of exporter by the foreign bank shown in the payment guarantee to cover the port value of the commodity exported.
9. A final payment schedule showing the payment due dates and the amounts due, separately for both the principal and the interest for which credit has been extended.
10. Certification that the commodity exported did not consist of any imported agricultural commodity.

Upon receipt of the above report, no additional reports or documents are required unless the foreign bank fails to make payment. If that occurs, certain documents are required to be furnished to CCC evidencing shipment of the commodity and the financing arrangements that took place with the foreign bank. If payment is not received, the holder of the payment guarantee must notify CCC within 10 business days from the date payment was due.

4. Safeguards.

1. By itself, the information provided at both the time of registration and export comprises a solid description of the transaction and a basis for discovery of the kind of discrepancies that might indicate program abuse.

2. Further compliance efforts are now being coordinated with the Compliance Review Staff in FAS. They are conducting spot checks of exporters' records that relate to the export sale that has been approved for either GSN-102 or GSN-103 financing. These reviews are being conducted for the purpose of determining if the exporter is complying with program regulations. For example, does the sales contract consist of 100 percent U.S. agricultural commodities and does the sales contract with the foreign buyer adequately support the information that the exporter submitted to CCC which caused the payment guarantee to be issued. These compliance reviews may eventually include inspection of documents and/or shipments at port of discharge.

3. In addition, procedures and staff support are currently being developed to monitor the prices that commodities are being sold for. If the prices appear out of line with market values, such transactions will be questioned and given further review before payment guarantees are approved. Further verifications may be made to assure that the commodities have reached the country of destination as approved in the payment guarantee.

4. Similarly, criteria for company participation in GSN and other export programs are under review for possible unification and strengthening.

5. On the basis of documents obtained separately from the Banco Lavoro investigation, requests for after sales services by one Iraqi purchasing authority came to our attention. During the FY 1990 credit negotiations with Iraqi officials, they were informed that requests for after-sales services to be furnished by U.S. exporters are not permitted under our programs and that such requests must be discontinued. We received Iraqi assurances that all Ministries and purchasing agencies participating in the program would be instructed to cease this practice.



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

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October 31, 1989

FACSIMILE TRANSMISSION FOR STEPHEN L. DANZANSKY
Deputy Assistant to the President
and Director, Office of Cabinet Affairs

FAX NUMBER: 456-7739

FROM: Alan Charles Raul
General Counsel

Dear Steve,

Attached is a press release issued by the Iraqi Embassy in Washington in which it indicates that "Iraq firmly abides by these agreements [with Banca Nazionale del Lavoro providing letters of credit guarantees for the companies having contracts with Iraqi establishments] and is desirous to honor its part of these agreements in accordance with international laws and conventions."

I thought you should be aware of this Iraqi assurance in connection with your review of the matter. Please call me if you have any questions.

Alan

✓ cc: Richard T. Crowder
Undersecretary, IACP
USDA

CO1333

PRESS OFFICE
Embassy of the
Republic of Iraq
 1211 Connecticut Ave., NW, Suite 600
 Washington, D.C. 20036
 (202) 635-4022



سفارة
 الجمهورية العراقية
 الدائرة الصحفية
 واشنطن

Statement issued by the Iraqi Embassy in Washington D.C.

Having heard the inaccuracies appeared in some news reports on irregularities concerning Letters of Credit issued for Iraqi firms by Banca Nazionale del Lavoro (BNL) - Atlanta Branch, the Embassy of Iraq issues the following statement:

In 1982 Iraq signed agreements with Banca Nazionale del Lavoro providing Letters of Credit guarantees for the companies having contracts with Iraqi establishments. Both contracting parties worked for the proper implementation of these agreements. Iraq, on its part, honored its obligations provided for by the agreement, i.e., prompt and exact payments.

However, the Embassy feels obliged to express astonishment at these unfounded reports including the account given by BNL officials who claimed that their Atlanta branch acted in violation of their bank policy and had no authorization to sign these agreements with Iraq.

The Embassy reiterates that Iraq is not involved in any way in the so-called irregularities. The agreements between Iraq and the BNL were lawful and the facilities provided for by these agreements were used for the implementation of development projects and the import of agriculture and food products and machinery of pure civil nature under contracts with well known Italian and US firms.

The Embassy believes that these reports are untrue and entirely detrimental to the interests of Iraq and Italian and US firms.

Furthermore, any BNL reluctance to implement these agreements would cause serious damage to these firms.

In the mean time, Iraq firmly abides by these agreements and is desirous to honor its part of these agreements in accordance with international laws and conventions. Iraq also expects the other party to do so.

Board of Governors
of the
Federal Reserve System

OFFICE CORRESPONDENCE

Date November 1, 1989To [REDACTED]Subject: Meeting with USDA AttorneysFrom [REDACTED]on IraqSummary

Yesterday, attorneys from USDA met with representatives from Treasury, State, and Federal Reserve to provide their latest findings on the implications of the BNL situation for the CCC program. Kevin Brosch from USDA's General Counsel's office said that initially there were six areas of concern (detailed below), but investigation to date has not revealed any violations that warrant further delay in a FY 1990 program for Iraq.

USDA has now requested that NAC agencies meet on Friday November 3 to discuss a \$1 billion FY 1990 program for Iraq. While USDA is proposing that the program be offered in two \$500 million tranches, they are asking for approval of the entire amount at this time. Bayly hinted that, subject to approval from senior staff, USDA may have satisfied Treasury's concerns, but Treasury has not determined a position yet. John Kuray from the Federal Reserve's Legal Division said that investigations were ongoing, and that the Federal Reserve would prefer to see the investigations completed before moving forward. USDA countered that the Iraqis will not wait indefinitely, and if the United States is unwilling to sell, the Iraqis will likely purchase commodities elsewhere.

USDA Discussion

Kevin Brosch and Peter Bonner from the USDA General Counsel's office have traveled to Atlanta and are following the Assistant U.S. Attorney's investigation of the BNL situation. Brosch outlined six areas

initially identified as potential problems and addressed them.

individually. The allegations are:

1. Under the table payments by exporters to BNL. Brosch said they did not find documentation of this by CCC exporters. The branch manager of BNL in Atlanta has reportedly received large payments, and an investigation continues on the allegations that the New York office of a Turkish trading company that did some CCC business may have paid off the branch manager.
2. U.S exporters may have been required to pay consultant fees to Iraq-controlled organizations. Brosch says that there is no evidence that this has occurred with CCC guarantees. It is possible that this occurred in some high-tech trade, but not with CCC credits.
3. Gross overpricing of commodity values. Brosch said that in his review of documents in Atlanta, he did not see reference prices that were highly inflated. However, USDA will construct a set of reference prices and look into this further.
4. Potential diversion, transshipment, and barter of CCC goods. Brosch said that they could not find any references to Iraq on this charge, and that files he reviewed seemed to be in order.
5. Possible shipment of non-U.S. commodities under CCC programs. Brosch explained that in the past there has been concern with tobacco, seed, and sugar exports. There has not been any new evidence of any wrongdoing in the case of the Iraq program here.
6. Iraqis asking exporters for "after sales service" and threatening to blacklist those who do not comply. According to Brosch, this is the only charge where there is clear evidence of Iraqi wrongdoing, but it is not related to the BNL affair. Apparently, the Iraqis have demanded that U.S. exporters provide trucks, truck parts, hydraulic equipment and other machinery free of charge. If exporters did not comply, they would be blacklisted and cut off from future Iraqi business. Brosch said that this is in violation of CCC program rules and the Iraqis have been told that this cannot continue. Brosch admitted, after some questioning from Treasury attorney Marilyn Muench, that this had occurred last year, and the Iraqis had been warned to discontinue the practice. Brosch thought that this program regulation might be tightened in the future.

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Given that these findings do not implicate the Iraqis of any wrongdoing with respect to CCC credits associated with BNL, Brosch thought that there was no reason to hold up the program for Iraq. Brosch said that he had seen a written report detailing USDA's position that he thought would then be circulated to the NAC. [Note: As of today, Sayly said that Kerry Reynolds, Director of Program Development at USDA, did not know of this document.]

Other agency views

State Department was represented by an attorney, Bob Clark and the Director of North Gulf Affairs, John McGhee. State Department's concerns were narrowly focused on whether or not there was evidence that warranted shutting down the program. Upon hearing that Brosch did not think there was much evidence, the representatives made a few comments and then left without staying for the remainder of the meeting.

In response to one of Brosch's assertions that the Iraqis had not defaulted and had paid up to now, Muench asked about a notice of Iraqi default reported by the National Bank of Kuwait. Iraqi payment of about \$1 million to National Bank of Kuwait on CCC credits was due on October 11, 1989, but has not been made. While this could possibly be an unintentional delay or oversight, this occurred around the time of the Iraqi delegation's visit to Washington and would not seem to reinforce the Iraqi case that it is a good creditor. It should become clear by late November whether or not this is actually a default that the CCC will have to cover.

John Kuray stated that he was in touch with Federal Reserve investigators and with the Assistant U.S. Attorney in Atlanta, and it was his impression that there was still a good amount of uncertainty

- 4 -

surrounding the outcome of the investigation and its findings. He would not be comfortable recommending going forward with an Iraq program at this time.

Policy concern

After USDA attorneys left the meeting, Federal Reserve representatives stayed to talk with Treasury staff. Muench seemed to feel that USDA had made steps in the right direction and that Brosch and Bonner had been straightforward in their discussion of the outstanding issues. When Bayly was asked about her earlier remark that USDA may have satisfied Treasury's concerns, she hesitated and indicated that this was still subject to review. (Dallara is out of town until the end of the week, and this could complicate efforts for an early decision at Treasury.) John Kuray said that he was more skeptical about USDA's presentation. While he thought that USDA was probably not incorrect in what they did discuss, there was still a tremendous amount that was yet to be clarified. Both Treasury and Fed representatives agreed that there are some issues (e.g., regulatory and bank fraud) that our agencies are concerned with that may not be of concern to USDA.

USDA has asked NAC agencies for a meeting on Friday November 3 to consider a \$1 billion program for Iraq in FY 1990 (see attached). On page two, the letter says that USDA will offer the program in two tranches of \$500 million, but is requesting NAC approval of the full \$1 billion at this time.

Bayly said that Treasury has not determined its position. John Kuray thought, after speaking with Muench, that Treasury may still be looking to the Fed to lead on this. After reading the USDA letter, Kuray seemed to feel that USDA's proposal to tranche the \$1 billion, but to

- 3 -

have authorization for the full program, was not very meaningful since the activation of the second tranche was not conditioned on a further update on the BNL-CCC affair.

I do not have a sense yet of what position other NAC agencies will adopt on the new proposal. As you may recall, all NAC agencies objected to the \$1 billion program when it was last proposed. USDA modified its request to \$400 million, and State, Commerce, Eximbank, and USTR supported this amount; Treasury and Federal Reserve opposed. It does not appear that moral suasion will deter USDA any longer; it can choose to go forward with a program for Iraq without NAC approval. The Federal Reserve may wish to make strong comments at the NAC meeting and oppose the proposal on the grounds of unresolved issues in the investigation, in addition to creditworthiness arguments we have used in the past. Alternatively, John Kuray has suggested that, should we wish to remain players, we could support a reduced program of \$400 million to \$500 million, whereby each disbursement (of possibly \$100 million each) would be released upon obtaining a satisfactory update on the progress in the BNL investigation. Kuray said that this was about as much as he was willing to support. Kuray suggested we could see if Treasury would be willing to coordinate with us on this position.

cc: 



United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D.C.
20250

NOV 01 1989

Mr. Allen E. Clapp
National Advisory Council on International
Monetary and Financial Policies
Department of the Treasury
Washington, D.C. 20220

Dear Mr. Clapp:

My letter of October 4 stated that we would keep the MAC informed of our intentions for a GSM-102 credit guarantee program for Iraq. The U.S. Department of Agriculture's (USDA) delegation met the Iraqi Government delegation between October 5 and October 12, 1989, to discuss the Export Credit Guarantee Program (GSM-102) for sales of U.S. agricultural commodities to Iraq in fiscal year 1990. The USDA proposed, after consultation with the MAC, an initial GSM-102 credit guarantee program of \$400 million to the Iraqi delegation. The two delegations were unable to reach agreement on this offer and agreed that negotiations should be continued at a later date.

During those consultations, the parties discussed a wide range of issues concerning Iraqi participation in the GSM programs, including various allegations that have surfaced in the press with regard to the Banca Nazionale del Lavoro (BNL) affair. This situation is now under investigation by the United States Attorney's office in Atlanta, Georgia, and other federal agencies. Representatives from USDA's Office of the General Counsel traveled to Atlanta to review BNL's loan files and look into specific allegations made concerning GSM programs. Their preliminary conclusions in regard to these allegations lead us to conclude that there is not sufficient reason to delay a program for Iraq any longer.

Accordingly, USDA proposes the following allocation of GSM-102 credit guarantees for FY 1990:

Amount:	\$1,000.0 million for FY 1990.
Purpose:	For credit guarantees covering credit sales of U.S. agricultural commodities secured by foreign bank letters of credit.
Terms:	Up to thirty-six (36) month terms, except as indicated below.
Guarantor:	Rafidain Bank and/or other eligible banks.
Export Authorization Period:	Through September 30, 1990.

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Assuming that we have the support of the NAC for a program at the proposed level, it is USDA's intention to send a negotiating team to Baghdad as soon as possible to renew consultations leading to a FY 1990 program. We intend to offer a first tranche of \$500 million and to offer a second tranche for later in the fiscal year of the same amount, if such a level is necessary to meet anticipated Iraqi purchases. The second tranche would be contingent upon a resolution of the BNL affair in which there are no additional problems or realized allegations of Iraqi involvement beyond those known to us today. We do not propose to go to Baghdad with NAC agreement for only the first tranche, because it seems clear that such a negotiation would be guaranteed to fail and because there is no good reason to deny a larger program to Iraq at this time solely on the basis of the BNL affair.

We would like to note that our proposed maximum FY 1990 program for Iraq of \$1.0 billion would be down from the \$1.1 billion credit program of FY 1989. In addition, we are planning to eliminate the GSM-103 intermediate credit component from the Iraq program.

Regarding commodity coverage, some commodities being considered for coverage lie outside Chapters 1-24--cotton, hides and skins, leather, solid wood products (lumber and wood panel products) and wood pulp. We are considering the practice of previous years and limiting coverage to 12 months for wood panel products, to 720 days for leather, and three years for all other commodities.

We request the views of the National Advisory Council on International Monetary and Financial Policies.

Sincerely,



Kerry E. Reynolds
Director
Program Development Division

RECEIVED

JUL 9 1992

Committee on Banking, Finance
& Urban Affairs

FOR NATIONAL ADVISORY COUNCIL
USE ONLY

NATIONAL ADVISORY COUNCIL

STAFF COMMITTEE

MINUTES
SPECIAL MEETING 89-1
November 3, 1989

FOR NATIONAL ADVISORY
COUNCIL USE ONLY

SPECIAL NAC STAFF MEETING
November 3, 1989
Page 1

The Chairman stated that the special meeting of the NAC Staff Committee had been called at the request of USDA, which was anxious to move ahead on the proposed FY 1990 GSM-102 program for Iraq. The Chairman noted the presence of representatives from OMB, which, he said, had developed a strong interest in the proposal since it had been discussed at a previous Staff Committee meeting (see minutes of meeting 89-40).

The ^{Agriculture} representative then introduced the proposed program (see NAC Doc. 89-137), outlining what, in his view, were the contentious issues involved: 1) the size of the program and 2) the Banca Nazionale del Lavoro (BNL) scandal and its implications for the proposed program.

He stated that the size of the program, one billion dollars, was appropriate both to satisfy the needs of U.S. exporters and in terms of what Iraq could service. Addressing the second issue, the ^{Agriculture} representative said that the \$400 million guarantee program approved by the NAC in early October (NAC Action 89-188) had been rejected by Iraq as being insufficient. At that time ^{Agriculture} did not press the issue due to uncertainties stemming from the BNL affair. However, he said, after a recent meeting between ^{USDA} auditors, officials from its General Counsel's office, and representatives from the U.S. Attorney's office in Atlanta, ^{USDA} felt more secure with regard to the integrity of the GSM program. Subsequently, ^{USDA} had determined that USDA should proceed with a one billion dollar program for Iraq. The ^{Agriculture} representative asked the NAC to act expeditiously on the proposal because Iraq had to make buying decisions and U.S. exporters were ready to ship.

The ^{Agriculture} representative added that he understood the hesitancy on the part of NAC agencies who wished to withhold approval until the BNL affair had been put to rest or it was proven that there was no Iraqi complicity in the BNL scandal. However, he cautioned, it would be just as disastrous if ^{USDA} offered no guarantees to Iraq, lost a one billion dollar agricultural export market, and nothing came of the BNL affair, as it would be if ^{USDA} instituted an FY 1990 GSM program and a conspiracy was later uncovered. He reiterated that Iraq had to make buying decisions and noted that the United States had already lost sales there to other countries. He concluded with a statement that the FY 1990 program should not be further held up

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SPECIAL NAC STAFF MEETING
November 3, 1989
Page 2

unless there were serious proven allegations about Iraq's involvement in, or complicity with, wrongdoing in connection with the BNL affair. He then introduced a representative of [redacted] ^{USDA's} General Counsel's office and asked that specific questions regarding the BNL affair be directed to him.

In initiating the discussion, the Chairman proposed that the question of Iraqi creditworthiness and the implications of the BNL affair on the proposed FY 1990 program be addressed separately.

The ^{Federal Reserve} representative noted that the issues were related insofar as the BNL affair could weaken Iraq's overall creditworthiness. He also voiced concerns regarding Iraq's debt servicing record, in particular its insistence on unilateral debt reschedulings.

The ^{CMB} representative supported the [redacted] ^{Federal Reserve} representative's concerns, adding that his agency did not wish to see the U.S. Government get into a position that required it to extend new credits in order to secure repayments on old ones. He also noted the recent problems involving other U.S. Government credit programs. Finally, he said that more work needed to be done to address properly the creditworthiness issue -- in particular to determine whether the U.S. Government could reasonably expect repayment by the Iraqis on existing debts in the absence of new credits.

The ^{Agriculture} representative stated that Iraq's debt servicing history with regard to its CCC debt had been good. Its record with other creditors, he added, was another matter, but his agency had made very extensive efforts to gather all available information on the country's creditworthiness. They had concluded from their analysis of this information that the program should not be held up on these grounds.

A ^{Treasury} representative noted, as a point of information, that the total exposure of the CCC in Iraq was \$1.7 billion. This would require FY 1990 payments (exclusive of any FY 1990 program) of about \$700 million in principal and \$60-70 million in interest. She echoed [redacted] reservations regarding Iraq's creditworthiness.

CMB's

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COUNCIL USE ONLY

SPECIAL NAC STAFF MEETING
November 3, 1989
Page 3

The ^{OMB} representative formally requested that ^{USDA} country risk analysis be made available to other interested agencies. He also noted that because Iraq represented 20-25 percent of the CCC's current portfolio, prudent risk management would dictate diversification. He also cited a recent Eximbank country risk analysis of Iraq which, he said, showed the country to be uncreditworthy.

The ^{Agriculture} representative, noting Iraq's large oil reserves, said his agency was optimistic regarding the long-run creditworthiness of Iraq. Finally, he stated that debt servicing by the Iraqis was a question of priorities -- that is, a question of who they would pay, not if they could pay.

The Chairman asked if ^{USDA} would share its analysis with the NAC member and other participating agencies. The ^{Agriculture} representative agreed to do so.

Returning to the issue of the BNL investigation, the ^{Federal Reserve} representative contended that although the ^{Agriculture} General Counsel had stated that there was no evidence to support a number of the allegations, that did not mean that no incriminating evidence would crop up in the future.

^{Treasury} The ^{USDA} representative said that his agency appreciated ^{USDA} efforts to respond to the concerns that had been raised about the proposed program, but the ^{Treasury} opposed any further programming for Iraq at the current time. He also asked that the proposed program for Iraq be taken up at an NAC Alternates meeting. Finally, he requested a written report from ^{USDA} regarding the implications of the BNL affair for the CCC's program and the steps that had been taken to address any problems identified.

^{Treasury} In response to a question from the ^{USDA} representative as to which specific legal issues still needed to be addressed, the ^{USDA} representative cited questions regarding after-sales servicing for Iraq. The ^{Agriculture} representative stated that the issue had already been raised with the Iraqis, and added that his agency would secure from Iraq written assurances that it would not request after-sales servicing in connection with the FY 1990 CCC program.

^{State} The ^{State} representative stated that, although a number of allegations caused concern, his department was satisfied that there was no evidence at this time that warranted disapproval of the FY 1990 program and officials at the highest level wished to

FOR NATIONAL ADVISORY
COUNCIL USE ONLY

SPECIAL MAC STAFF MEETING
November 3, 1989
Page 4

proceed with it. He also stated that there did not seem to be any clear-cut Iraqi Government involvement in the cases of wrongdoing uncovered thus far -- but some uncertainty was inevitable.

The Chairman stated that the ^{Treasury} request for a meeting of the Alternates had changed the focus of the Staff Committee meeting. He noted that it was the right of any NAC agency to request an Alternates meeting and that one would be organized quickly. The ^{Agriculture} representative asked that arrangements be made expeditiously and repeated his request for concerned agencies to table any specific questions or problems they might have regarding the Iraqi program.

The ^{OMB} representative said that his agency was troubled by questions related to foreign content, creditworthiness, and the current vulnerability of the Administration to scandal with regard to U.S. Government credit programs. He noted that the BNL investigation was in the middle, not final stages, and indictments were due in November and December. He concluded by expressing support for an NAC Alternates meeting to review the proposal.

In response to a question regarding the foreign content issue, especially with regard to tobacco shipments, the ^{Agriculture} representative stated that his agency was aware of the problems related to this issue and was dealing with them. He stated that it was not connected with the Iraq-BNL affair, but rather involved exporters of commodities financed under the program. The fact, he said, that the foreign content problem had been brought to light and was being dealt with by the system showed that the system was working.

The ^{State} representative, noting that the Iraqi government stated that it would fully cooperate with the investigation, urged a rapid resolution to the problems or questions that were hindering action on a FY 1990 CCC program for Iraq.

The ^{Agriculture} representative echoed ^{OMB's} request for a rapid resolution, noting that U.S. exporters were already losing sales in Iraq.

*** END ***

00086

11/6/84 more on [redacted]

Treas.

[redacted] says EtHoliday says
 Robson was called by Saplesburger. (when?)
 R may want to attend whatever mtg
 Et asked for copy of defendant's letter to [redacted]
 mofp.

if Robson goes, Edie might
 is giving mm copy of memo + Dir's letter

OMB

[redacted]
 is mtg not OMB's [OMB Ag CA]
 called by CMB Affairs (Assist Dir?) Steve Danvanski
 purpose: To bring white house up to speed
 can call 456-2500 for Danvanski's name, offc, tel if
 we want to be involved.

State

[redacted]: get [redacted] with
 rumor: USDA had called NAC at mtg, prob just that is [redacted] mtg.
 also: may have had 11 mtg — [redacted]
 can call [redacted]
 Also move @ State to get high levels call to
 Charles - since Hill

Treas

[redacted] info
 Ecton called Mac
 McAllister called Charles.

Parrell - Veneman from Ag

Source: Dept. of the Treasury

this is a big project to be brought after
he left bank.

Should know in a week or so if they can
get a good witness from Europe.

Treas. ~~██████████~~

She had been called by white house - got
impression concerned about embarrassment
level.

Treasury ~~██████████~~

^{advised} Other problems?

didn't send trucks - didn't send add'l lumber

know of nothing new that

but ~~there~~ there are allegations that
could lead to long complicity and
nothing new on other charges.

~~outline~~
chronology

briefing
memo

attachment: \rightarrow new D>R letter
old D>R
mechanics (outline)
chronology

Eddie wants to see draft Sanctuary to
Karen Bernhard/Spencer to pre-wire/Ch

bad. CHD wait

David
CNC
Eddie
you
NVA
PAC
L-3
C-130



DEPARTMENT OF THE TREASURY
WASHINGTON

NOV 6 6 1969

INFORMATION

MEMORANDUM FOR

FROM:

SUBJECT: Discussion with USDA of BNL Investigation
and CCC Credit Guarantees to Iraq

I. SUMMARY

At Treasury's invitation, two ^{USDA} attorneys met on October 31 with representatives from Treasury, State, and ~~Federal Reserve~~ to discuss the ongoing investigation by the Atlanta U.S. Attorney's Office into the Banca Nazionale del Lavoro (BNL) affair and its ramifications for Commodity Credit Corporation (CCC) export credit guarantees to Iraq. Based upon the information provided at the meeting and other information available to us, it is our view that (1) USDA has begun to address the questions raised for the CCC program by the BNL affair; (2) although certain initial allegations arising from the investigation do not seem to have been borne out, troubling questions remain in two areas, one of which (after-sales services) involves attempts by the Government of Iraq to abuse the CCC program; (3) no information has yet come to our attention that would require that the CCC program for Iraq be terminated on legal grounds; and (4) because the BNL investigation is still ongoing, close monitoring of future developments is advisable.

II. DISCUSSION

Areas of Concern Suggested by BNL Investigation

The allegations that came to light in the investigation of BNL suggested six potential areas of concern for the CCC program for Iraq. The six areas are

- (1) required "consultancy fees" (i.e., kickbacks) paid by exporters to Iraqi-controlled companies;
- (2) overpricing of commodity shipments;
- (3) diversion of CCC goods before they reached Iraq;

	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	SECRET
OFFICE CODE						
SURNAME						
INITIALS/DATE		/	/	/	/	

- (4) shipments of non-U.S. commodities under CCC guarantees;
- (5) under-the-table payments by exporters to BNL officers; and
- (6) "after-sales servicing" of contracts.

In the first four areas there is either no evidence that U.S. law was broken or no evidence that any violations that may have taken place have any particular tie to CCC guarantees to Iraq.

Specifically:

- (1) Iraqi companies have required consultant fees on some high-technology contracts, but there is no evidence as yet that they, or the Government of Iraq, have required them on CCC-guaranteed contracts.
- (2) The U.S. Attorney's office may have used the wrong reference prices for certain commodities. USDA is developing price references for comparison.
- (3) The U.S. Attorney's office may not have realized that Iraq's principal port of Basra was closed during the war, and ocean shipments were instead made to ports in Jordan and Turkey, with complicated overland transport being arranged from those ports.
- (4) Some U.S. exporters may have shipped commodities (such as tobacco) that were not considered U.S. commodities under CCC's definition, but this is a generic problem that USDA has been investigating for several years. (The problems appear to be with the exporters and not with importing countries.)

USDA is continuing to look into the first three areas. According to the USDA attorneys, USDA is also considering beginning a program of spot price checks to ensure that appropriate prices are paid for CCC-guaranteed commodities. With respect to guarantees to Iraq, USDA is considering requiring some kind of documentation of the overland shipment of CCC-guaranteed goods from Jordan and Turkey into Iraq.

Payoffs to BNL Officers

The fifth area of investigation is under-the-table payments by exporters to BNL officers. In particular, the New York branch of a Turkish exporting firm (ENTRAD) appears to have made substantial payments to the BNL officers responsible for dealing with the Iraqi CCC loan business. ENTRAD's profits tripled in

one year, and the amounts alleged to be involved in the payoffs may range up to \$100 million. The payoffs may be linked to several other aspects of BNL's Iraq loans: the interest BNL charged on the loans is so low that it is unlikely BNL could make any profit; BNL paid exporters up front even when payment terms allowed it to pay in installments; and BNL accepted documents from exporters that may not satisfy the terms of the letters of credit issued by Rafidain Bank in the exporters' favor.

There is little doubt that BNL officers were conspiring with exporters. However, there is as yet no evidence that Rafidain Bank was also involved, although the U.S. Attorney's office believes it was aware that the loans extended by BNL's Atlanta branch had not been approved by BNL headquarters.

After-Sales Services

The sixth area of concern, after-sales services, is the most serious charge with respect to Iraq's CCC program. It is not really part of the BNL investigation, as there is no indication BNL was involved, but it apparently was called to USDA's attention again during the BNL investigation.

The USDA attorneys stated that exporters of wood products have informed USDA that the Iraqi Ministry of Construction threatened to blacklist them unless they provided free "after-sales services" on contracts for the export of wood products. USDA investigators have seen the telexes in which Iraq makes these demands, in blunt, unambiguous language. Iraqi demands covered additional goods not related to wood, such as trucks, truck parts, air conditioners, and hydraulic equipment. Such "servicing" is contrary to CCC regulations and can be described as demands for kickbacks.

USDA could not tell us whether any exporters had provided the additional goods demanded or whether any exporter had been blacklisted for refusing to provide such goods, although the attorneys felt such events would have come to their attention if they had occurred. USDA also did not know whether Iraq has required after-sales services from exporters other than wood products exporters, although they had not heard of any. Iraq has admitted that it sent the telexes. According to USDA, the Iraqis claimed this year that they were unaware that such demands violate CCC regulations and U.S. law. This explanation is unpersuasive in light of the fact that they were specifically warned by USDA about after-sales services demands last year.

USDA conceded that after-sales services are a real problem, and the attorneys said USDA is considering amending its regulations and issuing a notice to exporters to make clear that after-sales services are not permitted. They said USDA expects to get a commitment from the Iraqi negotiating team that no further demands for such services will be made.

Conclusion

From our lengthy discussion with the USDA attorneys, it appears that USDA has taken this matter fairly seriously, but with a narrow view as to what constitutes the critical issues. USDA's focus is on the effect of any wrongdoing on CCC guarantees. It is essentially unconcerned by what BWL or exporters may have done, as long as CCC does not have to pay on its guarantees as a result and there is no conclusive evidence that the Iraqi government is involved. The USDA attorneys resisted suggestions that CCC monitor loans and loan documentation more closely, on the ground that additional supervision would substantially increase the cost of CCC loans. In the one area where there is solid evidence of Iraqi abuse of the CCC program, after-sales services, the steps USDA proposes to take--clarifying CCC's position via regulations and notices, and obtaining an Iraqi commitment--seem adequate if they are in fact carried out. It is not clear to what extent USDA decision makers are committed to taking these steps.

On the whole, given the demonstrated bad faith on the part of the Iraqi Ministry of Construction, the on-going criminal investigation that could result in evidence that Rafidain Bank may have been involved in the irregularities in the BWL loans, and the current uncertainty about repayment of Iraq's CCC loans (Iraq currently is behind on three payments due October 11 to a Kuwaiti bank), it would be advisable to proceed cautiously.

NAC PROCEDURE

Decisions of the National Advisory Council are taken at staff level by majority vote, but at the policy level problems are resolved by reaching a consensus agreement. It is also noteworthy that the NAC is an advisory body; therefore, Agriculture and other agencies whose proposed transactions are reviewed by the NAC are not legally bound to abide by the NAC's decisions. We do not know of any cases in which an agency has acted contrary to the NAC's advice.



United States Department of State

Washington, D.C. 20520

CONFIDENTIAL8925802 KR8924975
'89 NOV-06 6:30 PMACTION MEMORANDUM
S/STO: The Acting Secretary - *Caglebinger*

THROUGH:

FROM:

SUBJECT: CCC Program for Iraq

ISSUE FOR DECISION

How to expedite approval of a full CCC program for Iraq.

ESSENTIAL FACTORS

The Secretary has determined that policy considerations warrant support for a full, \$1 billion program of Commodity Credit Corporation (CCC) credit guarantees for Iraq, provided the program is protected by safeguards, such as disbursement in tranches, that would ensure Iraqi compliance with CCC obligations and cooperation with the investigation of the Atlanta branch of the Italian-owned Banca Nazionale del Lavoro (BNL). The Iraqis rejected a USDA offer of a \$400 million "interim" in early October because they believed so drastic a cut from the \$1.1 billion FY89 program would be widely viewed as a U.S. vote of no confidence in Iraqi debt policy. The Secretary telephoned Secretary Yautter October 31 to urge that USDA propose a full program with adequate safeguards (Tab A).

USDA presented its new proposal for a full, billion-dollar program to the National Advisory Council (NAC) on November 3 (Tab B for membership and function of the NAC). The NAC declined to make a recommendation on the USDA proposal, electing instead, at Treasury's request, to bump the decision up to the political level; an Alternates' (Assistant Secretary level) meeting is to take place this week. Treasury and the Fed formally moved to block a decision in the NAC, acting at the behest of OMB. OMB, though not a member of the NAC, led the opposition to USDA's proposal at the November 3 meeting. Noting that OMB is administration watchdog against scandal, OMB complained of continued uncertainty regarding the Iraqi role in the BNL.

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CONFIDENTIAL

affair and that the Iraq CCC program was too big, given Iraq's recent failure to make timely payments on debt to some creditors. (OMB's real problem may be less with Iraq per se than with some serious accountability questions regarding the entire CCC program.) USDA responded to OMB, noting that the legal situation with regard to BNL remained unchanged, that there were no current plans to indict Iraqi officials, and that Iraq's record on repayment of CCC-guaranteed credits was spotless (Tab A). The NAC members, however, were content to kick the problem to a higher level. Only State spoke out in support of the USDA proposal.

Time is a factor. USDA has yet to register a single purchase by Iraq from U.S. commodity suppliers in FY90, and the Iraqis have begun to explore alternate sources of supply. A significant potential market for U.S. exporters is therefore at risk. USDA wants an Alternates' meeting as soon as possible, and it may take place as early as the afternoon of November 7.

RECOMMENDATION

That you telephone Treasury _____ and
OMB and urge that an Alternates meeting take
place as soon as possible to approve USDA's proposed full
program of CCC credit guarantees, with safeguards, for Iraq.

Approve _____ Disapprove _____

Attachments: Tab A - Action Memorandum approved by Secretary
Tab B - Note on role and composition of NAC
Tab C - Talking points

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CONFIDENTIALTALKING POINTS FOR CALLS TO TREASURY AND ONE

-- The CCC program is crucially important to our bilateral relationship with Iraq. State strongly supports action by the Alternates' meeting to approve the new program proposed by USDA.

-- We realize that Iraq has had problems paying its debts recently. However, the Iraqi economy survived the war in surprisingly good shape, and Iraq sits atop immense oil reserves. Its record on repayment of CCC-guaranteed loans is spotless.

-- Obviously, we should not go forward with the program if we have substantial evidence of a pattern of serious violations of US law by high-ranking Iraqi officials. However, the most recent available information about the SML investigation indicates that the prosecutor does not now intend to indict Iraqi officials.

-- On foreign policy grounds, we support a program of up to one billion, released in tranches, with periodic compliance reviews. These safeguards should protect us if problems are uncovered in the future and help assure Iraqi cooperation in the investigation.

-- Given the allegations, we believe safeguards should be built in to ensure the alleged problems do not recur.

-- The Iraqi Foreign Minister has promised the Secretary Iraqi cooperation with the SML investigation.

-- With safeguards in place, we can get this important program back on track.

-- I urge that the MAC Alternates Meeting be convened as soon as possible to approve the full program of CCC credit guarantees, with safeguards, proposed by USDA for Iraq.

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OFFICE OF U. S. ATTORNEY
1800 Richard Russell Building
75 Spring St., S. W.
Atlanta, Georgia 30335

FAX NUMBER: FTS: 242-2803
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FACSIMILE OUTGOING TRANSMISSION CONTROL RECORD

FROM: Helen McKenzie OFFICE OF U. S. ATTORNEY
NAME ATLANTA, GEORGIA

DATE: 11/9/89

TO: Jeff Byers - White House Washington, DC
NAME(S) CITY & STATE

NUMBER OF PAGES 8 (Excluding Fax Transmission Control Record)

DESTINATION FAX NO: 202-456-7929

PRECEDENCE
(ROUTINE) (IMMEDIATE) (PRIORITY)

Aida S. Watley
NAME OF SENDER

FTS: 242-6446 COMMERCIAL: 404-331-6446
PHONE

REMARKS:

Please see highlighted portions.
Also, please confirm receipt of document.
Thank you.

Growing concern over Western aid for Third World's missiles

By David White and Simon Henderson in London
and Tony Walker in Cairo

CONCERN ABOUT Western industrial help for developing countries' ballistic missile programmes has grown rather than shrunk in the two years since six Nato countries and Japan made an informal pact to restrict export of the necessary technology.

It has focused in particular on Argentina, with its medium-range Condor II programme, and on Iraq, which has its own projects for Soviet-derived missiles and is also believed to be associated with Argentina and Egypt in the Condor II.

The British Foreign Office said yesterday it had challenged Iraq on the Condor link and had received no denial. Iraq is reported to have three plants dedicated to the project.

If the UK were aware of illegal exports of technology or equipment, the companies concerned would be prosecuted, officials said. But certain kinds of equipment that could be used in missile factories might not be caught by the restrictions on granting export licences, and might therefore be sent legally.

The granting of export licences by the UK's Department of Trade and Industry is subject both to the Missile Technology Control Regime, in which the US and Italy are also partners, and to British curbs on arms exports to Iraq and Iran. These forbid supply of lethal weapons or equipment that could significantly enhance the military capacity of either side. Britain also bans arms sales to Argentina following the 1982 Falklands conflict.

It is believed that a proposed export of machine tools to Iraq by companies such as those cited in the Banca Nazionale del Lavoro scandal would have come under close scrutiny. The Foreign Office said the criterion was the nature of the equipment itself.

The DTI said it could not comment on individual applications for export licences. How an export was financed would not be relevant.

British anxiety over the missile programme was evidenced by the recent refusal, on Foreign Office advice, of a Northern Ireland Industrial Development Board grant to Canira, a company which bought a former Lear Fan factory in Northern Ireland. Canira is owned half by Space Research Corporation of Canada and half by the Iraqi-controlled Technology Development Group.

However, British officials said the purchase of the fac-

The British Foreign Office said yesterday it had challenged Iraq on the Condor link and had received no denial

tory, a leftover from an abortive aircraft venture, could go ahead. There was also nothing to stop it producing parts for weapons if it sought to do so - only to stop it exporting those products or machinery from the plant.

Iraq is known to have spent heavily on programmes based on Soviet Scud missiles. These include the 600km-range Al-Hussayn and the development and testing of the 900km Al-Abbas. The Condor II is also believed to have a range of about 900km, but it has apparently not been tested and it is thought that completion is some years away.

The two-stage, solid-fuel missile would be capable of carrying a small nuclear or chemical warhead. But the Stockholm International Peace Research Institute said recently it was "extremely unlikely" that it was designed as a nuclear weapon delivery vehicle.

The missile follows Argentina's single-stage Condor I space research rocket, with a range of 100km-150km, in which several European companies and technicians have been involved. Investigations have been undertaken in West Ger-

many and Italy into allegations relating to the Condor II, involving former employees of Snia-BPD, a Fiat-controlled rocket engine company, and a subsidiary of Messerschmitt-Bölkow-Blohm of West Germany. Snia-BPD and MBB were both involved in Condor I, as was Sagem of France.

Mr Duncan Lennox, a guided weapons expert and co-editor of Jane's Strategic Weapon Systems, yesterday called into question the degree of Iraq's current involvement in the programme, and said the existence of industrial sites in Iraq directly related to Condor II was unproven.

Iraq was initially reported to be involved as a financial backer for the project, which has worried the UK as a potential threat to the Falklands, and the US as a potential threat to Israel. Technicians of various nationalities were known to be assisting with development work in Argentina, Mr Lennox said. Egyptian collaboration with Argentina on the missile was disclosed in late 1987.

Last year several Egyptian nationals and military officers were arrested in the US on charges of trying to smuggle out "carbon-carbon" material usable for missile nose-cones.

The case has been particularly embarrassing for the US and Egypt because US inquiries linked former Defence Minister Abdel Halim Abu Ghazala with the attempts to secure the missile technology.

Iraq, according to defence experts in Cairo, became fully involved in the Condor project by the mid-1980s at the height of the Gulf War under an agreement with Egypt known as Bahr 2000. The extent of co-operation between the three partners is unclear.

In Egypt, work on the project is understood to be continuing at the Sakr missile factory outside Cairo. Official literature says the complex is engaged in the "manufacture of guided and unguided rockets and their launchers."

S global and eration

to done.
at BP shares fell 5p to close at
of 320p on the London stock mar-
et, where rumours of the deal
ta and the restructuring had cir-
ch- culated widely.

to BP was accused of reneging
on promises to maintain Scot-
ish employment made when it
took over British last year for
£2.4bn.

se- Mr Alex Selmond, MP for
ren- Banff and Buchan, said: "BP is
US guilty of a breach of faith of
ad- breathtaking cynicism. It has
pa- torn up the solemn undertak-
ly, a ings of last year and is phun-
a dering British assets and
US sucking BP and British work-
er- ers. It is a black day for Scot-
in land, but also a black day for
ise the reputation of BP."

ive A delegation of MPs led by
can Mr Tony Blair, the Labour
an party energy spokesman, and
BP Mr Donald Dewar, Labour's
sed spokesman for Scotland, will
s of visit Mr John Wakeham, the
2- energy secretary, today to
the voice their concern. The MPs
1 in will call on the Government to
im- order BP to reverse the reduc-
un- dancy plans on the grounds
and that they breach the spirit of
s of undertakings given to the
Treasury in February 1988
when British was bought.

ring Mr Browne said: "We believe
that we are not only within the
letter of the assurances we
gave the Government, but
within the spirit."

Mr He said efforts would be
made to achieve as many of
the cuts as possible by early
retirement and voluntary
redundancy.

Scottish reaction, Page 11;
Law, Page 20; London stock
markets, Page 24.

growth by ide this year

which tinued to increase, reaching
mer- \$78bn, while the UK deficit
cent more than doubled to \$37bn.
by a The UK deficit is now twice as
to 10 large, in dollar terms, as that
man- of any other member country
of the Organisation for Econ-
om- ics Co-operation and Devel-
op- opment apart from the US.
re- For the first time the Gatt
pres- report analyses international
ent - trade in commercial services
the which, it estimates, reached an

Campana junk bonds continue to plunge

By Anatole Kaletsky
in New York

THE JUNK BONDS issued by
Campana Corporation to
finance takeovers of Federated
and Allied Department Stores
continued to plunge yesterday
morning, as buyers vanished
from the markets despite the
ever-lower prices on offer from
institutional holders of the dis-
tressed bonds.

The sharp falls in bond
prices followed recent disclo-
sures of Campana's cash-flow
shortages and a possible tech-
nical default on some of
Allied's obligations as early as
today.

On Wednesday a sell-off
throughout the junk bond
market was triggered by Cam-
pana's announcement that it
might have to cede effective
control of its assets to the
Reichmann family of Toronto
and would probably be unable
to meet a deadline for refinan-
cing a \$400m bridging loan
from its investment bankers.

The distress among junk
bond investors was a key fac-
tor behind the losses in the
equity market on Wednesday
afternoon.

By yesterday morning deal-
ers reported that calmer condi-
tions had returned to much of
the junk bond market, with
quality issues like RJR
Nabisco, Duracell and Fort
Howard Paper recouping some
of the previous day's losses,
but the flight from the weak-
est credits, particularly Cam-
pana issues, was unabated.

With liquidity in Allied and
Federated bonds virtually non-
existent, quotations were in-
evitably subjective, but one lead-
ing dealer reported that
Allied's 11½ per cent debentures
of 1997 were on offer at
Continued on Page 20

BNL Atlanta 'exposed to \$3bn of Iraqi loans'

By Alan Friedman in Rome and Victor Mallet in London

MR Guido Carli, Italy's
Treasury Minister, said last
night that the Rome headquar-
ters of the scandal-ridden
Banca Nazionale del Lavoro
(BNL) should have been aware
of improper Iraqi export lend-
ing by the bank's branch in
Atlanta, Georgia.

Mr Carli blamed BNL's for-
mer management for failing to
detect the scandal, stressing
the bank's inadequate internal
controls. Mr Mario Nesi and Mr
Giuseppe Fedde, respectively
chairman and director-general
of BNL, resigned last week.

In the Treasury Minister's
first statement on BNL since
the scandal was discovered on
August 4, he also revealed that
the total Iraqi loan exposure of
BNL's Atlanta branch amounts
to \$3bn.

In testimony before a Senate
committee, Mr Carli said a
Bank of Italy inspection had
shown that the loan exposure
consisted of \$1.55bn of direct
cash exposure to Iraq in the
form of unauthorised loans. A
total of \$706m in outstanding
letters of credit are covered by
guarantees from the US Com-
modity Credit Corporation
(CCC).

A further \$550m of credits
has been committed to Iraq but
not yet paid out. BNL has until
now said its total Iraqi expo-
sure was \$2.64bn, of which the
unused credits totalled \$800m.

Mr Carli said that despite
the "irregularities" perpetrated
by BNL's Atlanta branch, there
were "traces" in the bank's
available information that
"could not have escaped internal
controls" by the bank's
Rome headquarters.

Simultaneously, in London,
the Iraqi Embassy also said it

was inaccurate to suggest
that the Atlanta branch had no
authority to conclude "agree-
ments of this nature."

Asked for clarification, an
embassy spokesman said
BNL's Atlanta branch did in
fact have authority from Rome.
The embassy went on to sug-
gest that inaccuracies about
the role of the Atlanta branch
would harm the interests of
Iraq as well as both Italian and
American companies.

"However, the damage to
these companies will certainly
be much greater should the
Atlanta branch of BNL show
reluctance in the procedural
implementation of agreements
on credits granted by the
branch itself to Iraq."

Meanwhile, it became clear
that investigators on both
sides of the Atlantic are begin-
ning to uncover evidence of an
extensive Iraqi network of mil-
itary procurement agents and
supplier companies in both
Europe and the US. Some of
them appear to have contrib-
uted dual use technology and
equipment - having both civil-
ian and military applications
- that had been sought by
Baghdad for the development
of a nuclear-capable ballistic
missile known as the Condor 2.

Mr Carli also explained the
delay in the expected emer-
gency recapitalisation for BNL
by DMI, a cash-rich state bank.

The Treasury chief said BNL
required around L1,400bn
(\$1bn) in order to meet the Ital-
ian Central Bank's capital ade-
quacy requirements. He said
that instead, INA, a state
insurance concern, and INPS,
the state pension fund, would
together inject a total of
L800bn of fresh capital.

EUROPEAN EXPERTISE



GENERAL INFO Re CONCORD II

September 11, 1989 8:10am Page 3

Behind the scenes in Baghdad
INTERNATIONAL DEFENSE REVIEW (IDR) JUNE 1, 1989 p. 841 v. 022 no. vix
By: Guy Willis

Lt Gen Dr Amir Al-Saadi, First Deputy Minister for Industry and Military Production, is responsible for the day-to-day management of the Iraqi Military Production Authority (MPA) and headed the Baghdad exhibition committee. Messpoke at length to IDR's Guy Willis, in an exclusive interview, about Iraqi defense manufacturing.

General Al-Saadi said that Western journalists were usually surprised when he told them that Iraq had been self-sufficient in ammunition and conventional weapons since 1967. "Although in the past we have shunned publicity, the intention is to give out a message that we are strong enough to defend ourselves. Iraq wants to take its rightful place." The General was keen to dispel misunderstandings about the technological progress his country has made. "In the past, when we asked for a programmable machine tool, we were sometimes denied an export license. Now we make our own machine tools, although we cannot produce everything there are still some gaps."
Aircraft manufacturing plans

IDR asked what items Iraq was now interested in. "We are still beginners in aviation", Gen Al-Saadi replied. He then outlined Iraq's plans for building up a military aircraft manufacturing industry. It will start with the assembly of jet trainers from imported parts, then progressively build up to 100 per cent of the fuselage components. "Maybe we will not go for 100 per cent of the engine, depending on investment." This process would then be repeated with a modern jet fighter. The trainer contract should be signed this year, the first Iraqi-assembled aircraft should be ready within two years and the fighter project should be "not too far behind". He added that even the Soviets were contenders in the fierce competition.

Talking about whether foreign countries were prepared to give Iraq access to the desired level of technology, Gen Al-Saadi said: "There is a clear picture on the advanced trainer, but not for the fighter. Many countries now purchase modern aircraft on the condition that there are a lot of indigenous components. This was evident in the Turkish F-16 program; we would like to do something like that or maybe a little more ambitious." Asked whether this would include fly-by-wire technology, he replied: "We would like the understanding that there are no limitations, other than what we can absorb and pay for."

Foreign connections

Gen Al-Saadi said that the USSR was a traditional source of arms and had supplied Iraq with very sophisticated weapons. "We don't want to break away, but we do want to diversify and also to produce locally, so we welcome possibilities of co-operation. This exhibition is to promote these possibilities." Was Soviet technology advanced enough for Iraqi requirements? "In certain areas, yes. Their aircraft are quite good, they are catching up the West in electronics and their rockets are very good, cost-effective and reliable. We have conclusive evidence that their weapons are robust and easy to handle and maintain. They lack sophistication compared to Western weapons, but they are cheaper."

Concerning reports that Iraq was co-operating with Brazil in developing a military satellite, the General said: "That's really premature; neither they nor we have enough technology in this area yet. The talks were exploratory, they came to see us and we plan to go and see them." IDR asked if a communications satellite would be useful, given that Iraq is poorly covered by existing satellites. "We are studying that, perhaps we could do this in the same way as Arabsat." However, Gen Al-Saadi denied that Iraq was involved in the Egyptian/Argentine Condor ballistic missile program, adding: "We already have a working system with a longer range and a bigger payload."

IDR suggested that Egypt might make a good partner for industrial co-operation. "We are happy to discuss this together to see where we go. There has been nothing proposed so far, but it is a possibility. They have committed themselves to Alpha Jet, we have not Alpha Jet is not an end in itself."

SPECIAL FEATURE:

PHOTO: No caption included Iraqi Minister for Industry and Military Production Mr Hussein Kamel Hassan (left) and First Deputy Minister Lt Gen Dr Amir Al-Saadi (right), who are in charge of the Iraqi Military Production Authority.

PHOTO: No caption included Iraqi Al-Hussein ballistic missile on an Al-Waleed towed mobile launcher. The 600km+ Al-Hussein and its big brother, the 800km+ Al-Abbas, are both derived from the Soviet Scud.
 ? t 00722942/5;t 00722938/5;t 00721267/5;t 00709485/5;t 00130021/5;t 00030511.

00722942/5

00722942

Word Count:00212

Condor missile

JANE'S DEFENCE WEEKLY, INTERNATIONAL EDITION (JDW) APRIL 22, 1989 p. 698
 v.011 no. 016

A potential third military partner is Egypt, which has already helped Iraq modify and extend the range of some of its Soviet-made SS-1 Scud B' missiles. Described as the country with the most advanced military technology in the Arab world, military technology in the Arab world, Egypt is also involved with Iraq and Argentina in building the Condor II medium-range missile.

Egypt, currently assembling the Alpha Jet trainer and the Gazelle helicopter, is likely to assist the Iraqis set up similar projects. Egypt also has plans to persuade Iraq to join a proposed Arab arms Iraq to join a proposed Arab arms consortium aimed at meeting some of the military needs of the Arab world.

Meanwhile Iraq's nascent military industries currently focus mostly on the manufacture of ordnance and munitions, including mortars, grenades, rockets, small arms and ammunition. The Iraqi military industrial sector is co-ordinated by the state-owned General Organisation for Technical Industries and the Military Industries Commission.

September 9, 1989 11:57am

Page 24

have drawn consistently strong support in Washington.

But over the past nine months, Abu Ghazala is said to have complained that his American sponsors in the Pentagon "let him down" by not containing the investigation into allegedly illegal technology transfers. "Whether he is guilty or innocent, that is the feeling he left with," said one Western official.

NAMED PERSONS: MUBARAK; HOSNI; GHAZALA, ABDUL-HALIM ABU; TALEH, YOUSSEF
ABU
DESCRIPTORS: Egypt; Foreign governments

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1831426

Iraq Said Developing A-Weapons; Missile Project Also Under Way, Israelis Say.

The Washington Post, March 31, 1989, FINAL Edition

By Steven L. Carter, Washington Post Foreign Service

SECTION: A SECTION, p. A01

STORY TYPE: News Foreign

LINE COUNT: 99 WORD COUNT: 1088

JERUSALEM, March 30 - Iraq, whose first attempt at acquiring nuclear capability was destroyed by Israeli warplanes in 1981, is secretly engaged in a crash program to build nuclear warheads for use with a strategic missile also under development, according to well-placed Israeli sources.

The goal of the secret program is to produce and test such a warhead within the next two years, the sources said. Some say they believe the Iraqis are keeping to that schedule, while others contend the project is at least five years away from completion.

Either way, however, the sources agree that Iraq has the technological capability to construct a nuclear weapon in the near future. "They may not become a nuclear-production nation, but they can be a nuclear-possession nation," said one Israeli source.

The Iraqi program, which was launched after the Israeli Air Force bombed the 70-megawatt Osirak nuclear reactor eight years ago, is using the 35 pounds of enriched uranium left over from the reactor, according to the sources, whose information on the Iraqi project was largely confirmed by U.S. military analysts in Washington.

After Iraq failed to obtain the cooperation of western governments, notably France, in the new project, it contracted with several "free-lance" technological firms, which the sources declined to identify, but which are believed to be western European. The sources said the project is being financed in part by Saudi Arabia and that Pakistan is believed to have provided limited technical assistance.

The warhead would be attached to a medium-range, surface-to-surface missile that Iraq is developing along with Argentina and Egypt in a project known by the Argentines as "Condor-2" and by the Egyptians as "Badr-2000," the sources said. Because of its high price tag--the Israelis estimate the cost of each missile at \$8 million--and its ability to carry a warhead weighing up to 1,100 pounds, many defense experts believe the missile is

September 9, 1989 11:57am Page 25

being developed for use with a nonconventional warhead. Development of the missile is said to be close to completion.

Israel destroyed the Osirak reactor, it said, because Iraq was planning to produce a nuclear bomb for use against the Jewish state. Menachem Begin, the Israeli prime minister at the time, warned then that Israel would not allow any hostile state to develop nuclear weapons. Israeli officials have refused to comment on the new Iraqi nuclear program, but sources said they were following the project with mounting anxiety and debating a course of action.

Concern over the Iraqi program is said to be one reason behind the Soviet Union's recent diplomatic initiative in the Middle East. Soviet Foreign Minister Eduard Shevardnadze raised the matter in his talks with Israeli Foreign Minister Moshe Arens in Cairo in February, according to Israeli sources. They say Shevardnadze used Iraq's nuclear potential as an example of how the region could spin out of control if war broke out.

Shevardnadze is said to have urged Israel to sign the 1968 international nuclear nonproliferation treaty, which Israel has never endorsed, and to submit to international inspection of its nuclear reactor at Dimona, in the Negev Desert. He also asked Israel to commit itself to measures that would ban medium- and long-range missiles from the Middle East or significantly reduce their number. In return, Shevardnadze promised that Moscow would restore diplomatic relations with Jerusalem.

A senior Israeli official confirmed that the two diplomats discussed "the question of armaments in the Middle East" in general terms but said that "the question of missiles or of nuclear weapons was not raised specifically." The official said Arens told Shevardnadze he shared the Soviet minister's concern but noted that Israel was responsible for less than 10 percent of the defense expenditure in the region.

Speaking in Cairo on Feb. 23, the day after he met with Arens, Shevardnadze proposed that the nations of the region declare the Middle East "a nuclear-free and chemical-free zone" and called for mutual inspection and on-site monitoring to promote arms control.

In the same speech, Shevardnadze dropped what sources here cited as a significant hint about the Iraqi nuclear project when he said that the need to end the potentially catastrophic Middle East arms race was a prime reason for increased Soviet diplomatic involvement in the region.

"Unless a peaceful comprehensive political settlement is found to the Arab-Israeli conflict, developments in the region would follow a (disastrous) spiral by the logic of military confrontation," Shevardnadze said. "The region faces the threat of an arms race that sooner or later could degenerate to a nuclear face-off."

"It is precisely because the Middle East is becoming a major obstacle to the further development of the process of disarmament, on which most of the world nations place their hopes for a better future, precisely because it is becoming a threat to those hopes, that it is necessary to internationalize the search for a settlement in the Middle East."

The two-stage missiles, which are expected to achieve a range of at

November 7, 1989

Recent Developments in Iraq

Overview

- Debt problems and oil revenue constraints continue to plague Iraq as it attempts to recover from a devastating eight-year war with Iran.
- Iraq is in the early stages of trying to rebuild after much of its infrastructure was destroyed during the Gulf war.
- The Iraqi government does not release crucial statistics, making an accurate assessment of economic performance difficult.
- Iraq has been servicing its bank debt, promising to repay in full 1993, but has been rescheduling selectively with official creditors.
- Iraq is current on its payments to the Exim and the CCC.

Debt issues

Non-Arab foreign debts climbed during the Iran-Iraq war and are estimated to be as high as \$35 billion. Debts to Arab countries, mainly Saudi Arabia and Kuwait for war financing, are thought to be between \$30 to \$50 billion. Arab debt is expected to be written off, however. BIS data indicate that exposure of all BIS banks in December 1988 reached \$8.14 billion; (the BNL credits are presumably not captured in these data). U.S. bank claims were \$259 million as of June 1989.

Iraq has adopted a policy of rescheduling official debt solely on a bilateral basis. Several agreements have been reached. France recently agreed to reschedule \$1 billion of the \$1.3 billion total debt from 1988 and 1989 maturities. East Germany will reschedule all of the \$120 million debt maturities falling due in 1989, and wants to reduce its net exposure from the current \$600 million to \$400 million by end 1993.

Japan, whose exposure totals \$5 billion, agreed to reschedule payments due in 1988 and 1989, to 1990 and 1991.

The United Kingdom export credit agency suspended cover for British exports in January 1989 after continuing payment arrears. Prior to the suspension, the United Kingdom had been the most willing among European creditors to extend new credits. Total Iraqi debt to the United Kingdom stands at \$1.3 billion, including \$612 million in credit agreed to in November 1988.

The Netherlands reached a rescheduling agreement with Iraq in 1987 covering \$100 million. Iraq failed to make the first of five \$20 million payments due in July 1989. Other countries that have concluded rescheduling agreements with Iraq in 1989 include Austria, Switzerland, Turkey, and Spain.

New Credit

Italy has introduced new cover for export commodity-guaranteed credits (e.g. oil), but the amount is unknown. Australia and Austria offered cover of \$70 million and \$100 million, respectively, in exchange for payments of \$9.5 million and \$67 million, respectively, in arrears. Japan doubled short-term (two-year) credit cover to \$138 million.

West Germany is expected to announce a \$300 million project financing facility for 1990 despite Iraq's failure to pay \$200 million due this year under its rescheduling agreement.

U.S. Commercial and Financial Relations with Iraq

Eximbank reopened short-term FCIA coverage to Iraq in July 1987 after going off-cover in March 1986 due to Iraqi debt-servicing arrears. Exim will cover up to \$200 million in revolving short-term credits. Iraq has asked frequently for substantial medium-term cover from Exim, but the

Eximbank Board suspended discussions due to two delinquent payments and U.S. government concerns over Iraq's use of chemical weapons. Iraq remains current on its payments to Exim in hopes of receiving medium-term cover. Eximbank has reported \$50 million in guarantees to Iraq through BNL, but has not reported any difficulties associated with these credits.

CCC exposure to Iraq totals about \$1.7 billion, consisting almost exclusively of GSN-102 credit guarantees with three-year maturities. With the increase in guarantees over the last few years, payments falling due after 1992 are expected to average higher than current levels. Repayments scheduled for 1989 are estimated to be about \$750 million. Roughly \$50 million to \$100 million of the total exposure has intermediate terms of up to seven years.

U.S. trade with Iraq is limited due to Iraqi adherence to the boycott of Israel. All business done under U.S. government credit facilities is exempted, however. The Iraqi government also tends to apply boycott restrictions selectively, and removes them from tenders and letters of credit when U.S. suppliers are needed.

Trade and Oil

With claimed proved reserves of 100 billion barrels, only Saudi Arabia boasts higher petroleum reserves. Petroleum exports account for over 90 percent of export earnings. Petroleum export earnings are likely to be about \$14 to \$15 billion this year, up from \$12 billion last year. Oil production has averaged 2.75 mbd in 1989, keeping within Iraq's OPEC quota of 2.78 mbd. With production capacity of 3.5 mbd, far exceeding its OPEC quota, Iraq must try to balance its need for export earnings and its faithfulness to OPEC. Iraq has been expanding export capacity, which

may exceed 4.5 mbd next year. Imports are expected to exceed \$16 billion in 1989, implying a slight trade deficit.

Economic Policies

Iraq intervenes heavily in the economy. Most exports and imports are controlled by the state. Iraq embarked on a program of economic liberalization in 1987. Although limited, plans to privatize trade in consumer goods, agriculture, and tourism are under way. The government also recently approved the first foreign investment law, restricted, however, to Arab foreign investment. To encourage savings, the Central Bank on September 11 raised interest rates on savings one percent to 7 percent, the first change in more than eight years. Banks will raise interest on loans also by one point to 11 percent.

Niehues
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Blair
N. Davis

DRAFT

NOV - 7 1990

SUBJECT: Briefing for NAC Alternates Meeting on CCC FY 1990 Programming in Iraq

ISSUE

The first issue is whether ~~at this time~~ to lift earlier Treasury objections to any CCC FY1990 programming for Iraq at this time. Should we decide to do so, a second issue is whether the program should be cut back (further) from the \$1 billion level CCC is now proposing for FY1990 due to creditworthiness concerns.

include
memo
from MM
to
Mac
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Ede + MM

Of the \$1 billion in credit guarantees being proposed for Iraq, USDA would offer \$500 million now and extend \$500 million later in the fiscal year if there are no new BNL related problems.

AGENCY POSITIONS

CCC extended an offer of \$400 million to Iraq in September, as a starter on FY 1990 programming. At that time, State, Commerce, USTR, A.I.D., and Eximbank supported Agriculture's proposal, while the FRB and Treasury opposed. (The offer was pulled back when Iraq insisted on a full \$1 billion.)

After weighing in earlier with serious questions, OMB now sees no legal basis for not proceeding with the programming, will explain its areas of residual unease, and defer to others on the decision. State wants to get the full \$1 billion program into place; Secretary Baker has approved this position. We assume Commerce, USTR, A.I.D., and Eximbank will continue to support Agriculture with varying degrees of caution. The FRB has been cautious about approving additional programming but we believe that they will go along with \$400-500 million. The FRB is the only agency that appears to share fully our creditworthiness concerns.

SUGGESTED TREASURY POSITION/TALKING POINTS

1. A very substantial amount of time and effort has gone into trying to facilitate CCC's resumption of programming for Iraq and support for U.S. exporters.
2. While we understand better the implications of the BNL affair for CCC programming, uncertainties still remain.

when final, if before 7, copy
pls to MM.

- 2 -

3. Since it does not appear that we will be able to clear up these uncertainties by any specified date in the near future, ~~the~~ Treasury recognizes the need to continue programming for Iraq. ✓

4. We do hope that agencies concerned will continue to monitor progress in the BNL affair.

5. We also hope that Agriculture will follow through on its efforts to tighten up its program to protect against future abuses.

6. Finally, we note that Treasury would prefer to send a stronger signal to the Iraqis that they should start servicing ~~its~~ foreign debt on a regular basis. We should limit the program this year to perhaps \$800 million. However, we will address that question later in the year before the second \$500 million is extended. ✓

ANALYSIS

General caveat. There is at present insufficient information available to us about the implications of the BNL affair to make a fully informed decision concerning FY1990 programming for Iraq. This is primarily due to the fact that the BNL investigation is ongoing. However, UDA had to be prodded before looking closely into the matter and even now takes a fairly narrow view of the facts. ✓

Possible program abuses. There is potential for abuse on the part of the exporter, the bank issuing the letter of credit, the confirming/advising bank, the buyer, and CCC. The present investigation has revealed:

- o One exporter, a Turkish-owned firm called Entrade, allegedly has made payoffs to BNL Atlanta.

- o There is no evidence that the Iraqi issuing bank, Rafidain Bank, has abused the program, although it is hard to believe that its officials did not find BNL operations out of the ordinary.

- o The confirming/advising bank (also the lending bank) was BNL, and there seems almost no question that the Atlanta branch manager engaged in numerous unauthorized transactions will be indicted on a variety of charges. ✓

- 3 -

o There is an allegation (which the U.S. Attorney's Office in Atlanta hopes to confirm through cooperation by a prospective witness outside the country) that Iraq may have offered the Atlanta BNL manager a \$100 million project in Luxembourg as a payoff for all the unauthorized transactions he engineered for Iraq. ✓

o The buyers are Iraqi ministries. While there is no evidence to date of any monetary kickbacks to ministries, there is evidence in writing that the Ministry of Construction requested after sales service (trucks, etc.) from U.S. wood products exporters.

o There has been neither allegation nor evidence of abuse on the part of CCC, although they are considering tightening up their program in several areas and have taken, and will take additional, steps to turn off Iraqi requests for after sales service.

Creditworthiness. Treasury has in recent years regularly expressed concerns about Iraqi creditworthiness, a concern generally shared by G-7 export credit agencies, which are effectively closed to Iraq except for the U.K. Our Eximbank is open in Iraq only for short-term business, and has turned down several requests to open medium and long term credits. While Iraq has large and increasing oil export earnings, it has chosen to allocate them to military imports and reconstruction rather than to make scheduled payments on its foreign debt. ✓

Iraq reschedules on a bilateral basis, rather than through the multilateral Paris Club; the Paris Club is the only mechanism the U.S. will use for reschedulings. Iraq's general policy towards creditors is to repay only when new credits are greater than debt service ^{\$1.1 billion} ~~(the situation CCC is now in)~~. ✓

Last year CCC went ahead with a \$1.1 billion program in Iraq despite our support for only a \$600 million program. This year, we believe that an \$800 million program would both signal our creditworthiness concerns to the Iraqis and cover estimated debt service to U.S. institutions under CCC guarantees.

Legal Position. Treasury attorneys are of the opinion that no information has yet come to their attention that would require that the CCC program for Iraq be terminated on legal grounds. However, they also point out that troubling questions remain in the area of payoffs to BNL officers and after sales services, and they believe it would be advisable to proceed cautiously. OMB lawyers are understood to share the view that there is no legal bar to proceeding with the programming.

- 4 -

Policy Considerations. Agriculture argues that the risks of not proceeding (U.S. exports lost, damaged relations with Iraq) are certain, but the risks of proceeding are uncertain. Given Agriculture's expertise and State's backing, it is difficult to question Agriculture's view of the risks of not proceeding. Certainly, if Treasury is instrumental in blocking the programming, we could expect to be pressured by exporters and the Congress. Agriculture also notes that if there were no Iraqi program, at a minimum rice support and marketing loan expenditures would be affected. (Treasury has received information from representatives of the rice industry, who have pointed out that a loss of the Iraqi market for that commodity could have adverse ramifications for other Agriculture programs, increasing USG support payments and the likelihood of loan defaults by farmers.) ✓

On the other hand, despite extensive efforts (contacts with the U.S. Attorney in Atlanta, the FRB, and Agriculture and a meeting of concerned lawyers last week), we have been unable to clear up the uncertainties to anyone's entire satisfaction.

Under the circumstances, we seem to have no choice but to indicate our concerns, encourage USDA to improve program controls, and allow the program to go forward.

We have for a number of years been concerned about Iraq's creditworthiness and financial practices and would prefer a \$800 million program for FY1990. We suggest that this point be made but that we not insist.

MAC PROCEDURE

Decisions of the National Advisory Council are taken at staff level by majority vote, but at the policy level problems are resolved by reaching a consensus agreement. It is also noteworthy that the MAC is an advisory body; therefore, Agriculture and other agencies whose proposed transactions are reviewed by the MAC are not legally bound to abide by the MAC's decisions. We do not know of any cases in which an agency has acted contrary to the MAC's advice.

CCC Mechanics

CCC's credit guarantee programs guarantee payment to a U.S. exporter or exporter assignee for the purchase of U.S. agricultural commodities under a foreign bank dollar-denominated irrevocable letter of credit.

CCC announces a program. A U.S. exporter registers an export sale with CCC by written application and payment of a guarantee fee. A foreign bank opens an irrevocable letter of credit covering payment for the commodities in U.S. dollars, in favor of the U.S. exporter. A U.S. bank may, at the exporter's option, either advise or confirm the foreign letter of credit. The exporter usually assigns proceeds which may become payable under the guarantee to the U.S. bank. The exporter performs under the contract and acquires the necessary documents (e.g. bills of lading, invoices, weights and grade certificates, etc.). The U.S. bank usually pays the exporter upon completion of the export (usually defined as issuance of an on-board bill of lading) and presentation of the documents.

The foreign bank then pays the U.S. exporter or exporter assignee according to the agreed terms, for example annual equal installments of principal and semi-annual installments of interest. If a U.S. bank doesn't receive payment of amounts due, it must notify CCC within ten days; CCC then goes off cover immediately in that country -- until the notification is withdrawn.

Chronology

In August the FBI found that substantial amounts of financing had been made available to the Government of Iraq by the Atlanta branch of Italy's state-owned Banca Nazionale del Lavoro (BNL) allegedly without authorization from the bank's central offices and off the books. There were early unconfirmed reports that some of the credits may have supported illicit arms shipments. USDA's Commodity Credit Corporation had guaranteed repayment by Iraq of some \$700 million of these credits for the purchase of US agricultural commodities.

The normal interagency process on CCC credit guarantees yielded, on October 3, a 5-2 vote in the MAC Staff Committee meeting in favor of USDA offering the Iraqis \$400 million in credit guarantees for FY 1990. With the Iraqis pushing for a full \$1 billion, USDA reserved the right to come back to the MAC for additional amounts. Treasury and the FRB opposed going forward with a program of any size in light of the BNL affair.

Two weeks ago, after sending two of its own attorneys to Atlanta to evaluate the implications of the BNL affair for CCC programming, USDA decided that it was ready to proceed with a program in Iraq, and wanted Treasury and the FRB on board. Accordingly, attorneys from USDA met with representatives of Treasury, State and the FRB to discuss the legal aspects of the investigation as they affect CCC programming in Iraq.

Last week OMB entered the picture. Based on a conversation with USDA's IG, Frank Hodsoll at OMB decided that no credit guarantees should be made available to Iraq at this time.

At the MAC staff meeting last Friday, USDA proposed a variation on its earlier \$1 billion proposal, namely that they would offer the Iraqis only \$500 million now, and would make the other \$500 million available if no developments in the BNL investigation suggested otherwise.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

000273

THE DEPUTY DIRECTOR

Honorable Jack C. Parnell
Deputy Secretary of Agriculture
14th and Independence Avenue, N.W.
Washington, D.C. 20250

Dear Mr. Parnell:

As you know, the Government of Iraq is seeking \$1 billion in additional credits under the GSM-102 export credit guarantee program, for the purpose of purchasing U.S. agricultural commodities. It has come to my attention, however, that investigations are under way into several aspects of the operation of the existing GSM-102 credit program with Iraq.

Several of the allegations that have led to the investigations are quite serious. Therefore, I believe that it would be inappropriate for the United States Government to offer any additional GSM-102 credits to Iraq until:

- we have sufficient information about the operation of past and existing GSM-102 programs with Iraq to be assured that these credits have not been misused; and,
- a timely review of the design of the GSM-102 program has been conducted to ensure that it contains adequate safeguards against potential misuse.

Cordially,


William M. Diefenderfer, Jr.
Deputy Director

IDENTICAL LETTERS SENT TO HONORABLE RICHARD T. CROWDER
AND HONORABLE DAVID MULFORD



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

000275

November 7, 1989

The Honorable John E. Robson
Deputy Secretary of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Mr. Robson:

As you know, the Office Management and Budget has previously expressed concerns about allegations of improprieties related to the operation of the GSM-102 export credit guarantee program with Iraq. We have suggested the need both for additional information about these specific allegations and for a review of the design of the program before extending additional credits to Iraq.

In response to these concerns, the Department of Agriculture has compiled a report which outlines the state of information available to the Department on allegations related to the GSM-102 program with Iraq. Further, it describes measures the Department is taking to improve the management of the GSM program. The Department believes that, on balance, it would be prudent to extend at least a limited amount of additional credits to Iraq at this time.

I am transmitting herewith the Department of Agriculture's report, in the belief that it will be helpful to the National Advisory Council on International Monetary and Financial Policies (NAC) as the NAC considers the Department's pending proposal to extend additional credits to Iraq.

Cordially,

William M. Diefenderfer III
Deputy Director

Enclosure

NATIONAL SECURITY COUNCIL

November 7, 1989

NOTE FOR NICHOLAS ROSTOW
SANDY CHARLES

FROM: ERIC MELBY

FYI. There is a NAC Deputies' meeting
tomorrow, chaired by Treasury.

November 7, 1989

**MEMORANDUM FOR THE NATIONAL ADVISORY COUNCIL ON
INTERNATIONAL MONETARY
AND FINANCIAL POLICIES**

FROM: John E. Robson
Deputy Secretary

SUBJECT: Export Credits to Iraq

The Department of Agriculture (USDA) is recommending that additional export credit be extended to Iraq in the form of GSM credits to finance the sale of U.S. agricultural commodities. USDA is proposing that Iraq be offered \$1 billion GSM credits in two \$500 million tranches. The second tranche would be made available only if circumstances warrant. In connection with the National Advisory Council's review of USDA's proposed GSM export credit to Iraq, I am enclosing copies of the following materials:

1. Letter to OMB Deputy Director William M. Diefenderfer III, dated November 7, 1989.
2. Draft Banca Nazionale del Lavoro investigation: status report dated November 7, 1989.
3. Statement issued by the Iraqi embassy in Washington, D.C. (undated).
4. Letter to Deputy Treasury Secretary John E. Robson, dated November 7, 1989.
5. Letter to USDA Deputy Secretary, Jack C. Parnell, Facsimile Transmission dated November 3, 1989.

As you know, certain irregularities have surfaced in connection with lending to Iraq by the Atlanta branch of Italy's Banca Nazionale del Lavoro (BNL). These irregularities are under investigation by the Department of Justice, USDA and other authorities.

Memorandum
November 7, 1989
Page Two

The risk to the U.S. Government associated with extending GSM credits to Iraq rests not with BNL but with the Iraqi bank opening the letters of credit in favor of U.S. exporters and, ultimately, with the Iraqi Government. The Government of Iraq has apparently indicated it stands by its existing financial obligations notwithstanding the irregularities in Atlanta.

Extending the GSM credits to Iraq is important to preserve that country as a significant export market for U.S. agricultural commodities. It is also important for foreign policy reasons. On the other hand, there are some uncertainties as to whether the ongoing investigation will reveal any compromises of USDA's GSM program and any complicity of Iraq therein. Accordingly, the Council will consider the benefits and risks of going forward with the additional credits to Iraq. This matter is highly time-sensitive because the negotiations with Iraq have reached a critical juncture.

*

cc: Jack C. Parnell
William M. Diefenderfer III
Stephen I. Danzansky

* A principals only deputies meeting of the NAC will be held tomorrow, November 7, 1989, at 9:00 a.m. in the Secretary's conference room, #3327, Department of Treasury to review this matter.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

000259

November 7, 1989

Honorable William M. Diefenderfer III
Deputy Director
Office of Management and Budget
Room 252 OEOP
Washington, D.C. 20503

Dear Bill:

Thank you for your letter of November 3, 1989, regarding the Government of Iraq's request for \$1 billion in additional credits under the GSM-102 export credit guarantee program. Attached is a draft status report on the on-going investigations regarding alleged improprieties in connection with lending to Iraq by the Atlanta branch of the Banca Nazionale del Lavoro (BNL). As we discussed at our meeting yesterday, USDA's General Counsel and Inspector General Offices have been working closely with the Justice Department's investigation of the Atlanta Branch's apparently unauthorized lending.

After duly reviewing all of the information available to us at this stage in the investigations, we believe that the benefits of providing the additional credit requested by Iraq outweigh the potential risks and uncertainties associated with the BNL situation. To the best of our current knowledge, the alleged improprieties and disclosures regarding the Atlanta situation have not increased the financial risks undertaken by the Commodity Credit Corporation (CCC) as guarantor of the agricultural export credits to Iraq. CCC would be subject to claims only if the Iraqi bank opening the letters of credit to secure payment in connection with these GSM exports failed to comply with its obligations. The U.S. Government's risk is with the foreign bank and the Government of Iraq. The United States has assumed no risk associated with BNL, which is simply as assignee of the credit guarantees. Iraq has repeatedly assured us that they stand by their obligations; the Iraqi embassy has issued the attached statement confirming that, notwithstanding reports of irregularities concerning letters of credit issued for Iraqi firms by BNL's Atlanta branch, "Iraq firmly abides by these agreements and is desirous to honor its part of these agreements in accordance with international laws and conventions." At this time, we have no evidence that Iraq's willingness or ability to comply with its financial obligations under the letters of credit is impaired as a result of the BNL situation.

Given that the investigations of the Atlanta situation are continuing, there inevitably remain open questions and uncertainties. Nonetheless, the risks of not going forward with additional credit are tangible and substantial, while the risks of extending the additional credit are considerably more speculative. For example, if additional export credit is not extended to Iraq, we put at jeopardy one of the most important foreign markets for U.S. agricultural exports. Significantly, Iraq has a good track record

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State (NEA and EN) strongly backed USIA in the November 3 NAC. The other NAC members -- AID, USTR, Commerce and EXIM -- did not speak at the meeting. USTR reportedly is leaning against USIA's proposal. However, AID can generally be depended upon to follow State's lead and EXIM has privately indicated support, since it has its own short-term program of credit guarantees. The Commerce representative will support the State position if the argument is made on foreign policy grounds.

III. PROPOSED STRATEGY

The Deputy Secretary has laid the groundwork by calling Deputy Secretary Robson at Treasury, to urge acceptance of the full program, and he plans a similar call to OMB. USDA lawyers briefed OMB legal advisors November 6, emphasizing that the U.S. Attorney does not intend to indict Iraqi officials in the INWI case on the basis of the evidence to date. You should strongly urge, on policy and commercial grounds, that the NAC Deputies approve the full package, with safeguards, submitted by USIA.

Attachment: Talking points

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~~CONFIDENTIAL~~TALKING POINTS FOR NAC DEPUTIES MEETING
November 8, 1989

-- The CCC program is crucially important to our bilateral relationship with Iraq. State strongly supports immediate action by the NAC Deputies to approve the new program proposed by USIA.

-- In NSD-26, the President mandated that we seek to improve and expand our relationship with Iraq. At present, trade is central to that relationship and credits guaranteed by CCC finance a large part of that trade.

(In response to the point that Iraq cannot service existing debt and that we are digging ourselves into a hole by providing new credits)

-- Iraq's record of repayment to us is good, and the Iraqis have told us we have priority over other creditors. Iraq has oil reserves second only to Saudi Arabia. In addition, we should not take action that would harm U.S. exporters.

(In response to the point that we should not go forward with a new program in light of the BNL scandal;)

-- On the basis of the evidence we have there is no reason to derail future programs. We have a pledge of Iraqi cooperation with an investigation into the BNL issue, in response to the Secretary's request to the Iraqi Foreign Minister. No investigating agency has put any specific questions to Iraq.

-- Past problems are a reason to make sure there are adequate safeguards in a new program -- not a reason to stop the program in its tracks to the detriment of our foreign policy interests.

-- We support a program of up to one billion, released in tranches, with periodic compliance reviews. These safeguards should protect us if problems are uncovered in the future and help assure Iraqi cooperation in the investigation.

I urge immediate approval of the full program of CCC credit guarantees, with safeguards, proposed by USDA for Iraq.

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[REDACTED]

National Advisory Council
Deputies Meeting
Minutes
Meeting 89-1
November 8, 1989

Deputy Secretary John E. Robson (Chairman), Treasury Department
Edith Holiday, General Counsel

[REDACTED]

Deputy Secretary Jack C. Parnell, U.S. Department of Agriculture
Richard Crowder, Under Secretary, International Affairs
Alan Raul, General Counsel

Deputy Director William M. Diefenderfer III, Office of
Management and Budget

[REDACTED]

Under Secretary Robert Kimmitt, Department of State

[REDACTED]

Governor Edward W. Kelley, Jr., Federal Reserve

[REDACTED]

Deputy U.S. Trade Representative Julius Katz

Stephen Danzansky, Deputy Assistant to the President and Director
for Cabinet Affairs

[REDACTED]

Arthur Pilzer, Vice President, African and Middle Eastern
Division, Export-Import Bank

[REDACTED]

Michael P. Skarzynski, Assistant Secretary for Trade Development,
Department of Commerce

[REDACTED]

[REDACTED] Agency
for International Development

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Authority: *MDP*

12/21/92

Handwritten notes:
 Action: [unclear]
 Report: [unclear]
 M.A. [unclear]
 [unclear]
 [unclear]

Deputy Secretary Robson opened the meeting by stating that there were two issues that should be addressed with respect to the proposed extension of new CCC guarantees to Iraq in FY 1990: (1) the question of Iraqi creditworthiness and (2) the implications of the Banca Nazionale del Lavoro (BNL) investigation and the uncertainties it created for the proposed program for Iraq. He stated that the proposed FY 1990 program should be evaluated, first, on the basis of the agencies' judgment that the 1990 program was a responsible action from a programmatic standpoint, and, second, from the standpoint of having to defend the program to a hostile Congressional committee or the media if a worst case scenario -- involving criminal conduct in connection with the program on the part of banks, exporters, or the Iraqis -- came about. He indicated that this possible worst case scenario should be weighed against the agricultural, trade, and foreign policy considerations involved in a decision on whether to proceed with the program. He then referred the meeting participants to two background papers prepared by USDA which outlined 1) the status of the BNL investigation and 2) a country risk analysis of Iraq, and asked Mr. Parnell for his comments.

Deputy Secretary Parnell noted that the BNL investigation had, thus far, resulted only in allegations of violations and that the Agriculture Department's Office of Inspector General had advised the Department in writing that there was not an evidentiary basis for withholding approval of a new CCC transaction with Iraq. Furthermore, he said, many of these alleged violations were internal BNL bank matters not associated with the management of the GSM program for Iraq. He added that while eventually it might be proven that certain BNL bank officers had been engaged in violations of the banking laws, such possible violations would not necessarily implicate Iraqi officials or others directly connected with the CCC program. These possibilities had to be weighed against the value of one billion dollars in export sales -- to a country, he noted, that accounted for 20 percent of all U.S. rice exports and was the tenth largest U.S. agricultural export market. He said that in his view the benefits of approving the program far exceeded the risks.

Deputy Secretary Parnell continued by noting that Iraq normally entered the market at that time of the year. He added that the United States was already five weeks late in its export credit negotiations with Iraq, and, accordingly, there was a risk of our losing the market for our exports.

- 2 -

As to a worst case scenario, Deputy Secretary Parnell said that his position would be that, based on all available evidence, the decision to go ahead with the GSM program was appropriate and correct. He stated that in this country innocence is assumed until proven otherwise and it was therefore improper to penalize the Iraqis for unproven allegations. Noting that the one billion dollar program was to be offered in two tranches, he suggested that if wrongdoing on the Iraqis' part were proven, the unused portion of the first tranche could be withdrawn and the second tranche not released. He summarized by noting that Iraq had to make immediate buying decisions, and that third parties were willing to fill these agricultural needs at the expense of U.S. exporters. He concluded that there was a strong need to move ahead expeditiously with a FY 1990 GSM program for Iraq.

Under Secretary of State Kimmitt stated that his comments reflected the views of Secretary Baker, who believed that the GSM program in Iraq was crucial to the U.S. bilateral relationship with Iraq. He noted that in "National Security Decision 26" the President had called for improvement of the U.S. relationship with Iraq, and bilateral trade expansion offered a good means to achieve that end. He noted that Iraq was key to the achievement of our objectives in the Middle East, the Gulf, and Lebanon. To abruptly terminate the GSM program in Iraq would, he said, clearly run counter to the President's intention and would, furthermore, cause a deterioration in our relationship with the Iraqis. Any such deterioration, he contended, would create difficulties in ongoing discussions on other issues, e.g., the Middle East peace process, human rights, and proliferation of missile and chemical weaponry. He noted that Secretary Baker had called Secretary Yeutter to express his support for an ongoing GSM program in Iraq. He also noted that the Iraqi Foreign Minister had given assurances that Iraq would cooperate fully with the investigation. Finally, he stated that, despite possible future revelations, overwhelming foreign policy considerations led him to urge support of the proposal, based on information available at that time.

Deputy Director Diefenderfer said that, while he was aware that OMB was not a voting member of the MAC, his agency's mandate to oversee the management of Government programs had led him to request an interagency review of the GSM-Iraq program. He applauded USDA for bringing a potential problem to the attention of OMB, stated that he was satisfied that the allegations had been taken seriously, and indicated that he did not want to express an opinion on the issue. Noting that the decision on approval of the program would involve a balancing of risks, he expressed confidence that the eventual outcome would be prudent

- 3 -

and correct.

Assistant Secretary Skarzynski, noting Iraq's large external debt and questions surrounding its creditworthiness, voiced an uneasiness with the proposed program. However, noting the foreign policy concerns of State and the large export market that Iraq represented, he said that Commerce did not want to obstruct the proposal. In response to a question from Deputy Secretary Robson, he said that his agency was not opposed to the program but felt that tranching and other safeguards were necessary.

Eximbank Vice President Pilzer said that he viewed the NAC as a forum for consideration of political, not country creditworthiness, issues. He noted that Eximbank had supported the CCC on its Iraq proposal in the past and would do so at this meeting. He also noted that Eximbank was currently open in Iraq with a short-term \$200 million revolving line of credit. The Iraqis, he said, were currently delinquent by \$12 million as of September 30, 1989, and Eximbank, therefore, would be reluctant to expand its exposure from the short-term facility.

[REDACTED] (AID) stated that since AID was not active in Iraq, his agency had no position on the current proposal.

Governor Kelley stated that, despite assurances on several points gained from the Agriculture Department's papers, there was still more about the BNL affair that had yet to be brought to light. He said that he was reassured, however, that the investigation had not yet revealed culpability on the part of the Iraqis. Nevertheless, he cautioned, it would be unrealistic to think that the entire BNL affair would be settled before the second tranche was released sometime in 1990.

Furthermore, Governor Kelley said, the BNL affair notwithstanding, there was still the question of credit risk with respect to Iraq. While he stated that he understood the need to make a sale to a customer, it was just as important that the customer pay. He cautioned that extending 20 percent of the CCC's guarantee authority for a fiscal year to one country was not desirable in terms of risk management -- especially when that country was engaged in unilateral debt reschedulings. Finally, noting the foreign policy considerations brought forward by State, Governor Kelley said that he, too, did not want to be obstructionist, but had reservations about a one billion dollar program.

Deputy U.S. Trade Representative Katz stated that, while this transaction was risky from both the creditworthiness and

[REDACTED]

- 4 -

domestic and international political angles, he thought it was reasonable to proceed, given the safeguards discussed.

Deputy Secretary Robson, in summarizing the sense of the meeting, indicated that absent compelling agricultural export and foreign policy interests this proposed program probably would not go forward. He stated further that the Committee's deliberations had been valuable insofar as they facilitated: 1) acknowledgment of the risks of proceeding with the proposed program for Iraq in the face of uncertainties as to the potential for future revelations of wrongdoing; 2) clarification of the point that resolution of the issue required a balancing of foreign policy and agricultural export interests; and 3) establishment of a record that showed that the risks involved in the transaction had been recognized and that the strong advice of the Secretaries of State and Agriculture had been that we should proceed. Thus, in the worst case scenario, it could be shown that the NAC agencies had taken prudent steps to protect the integrity of the program. He then offered a number of suggestions as to actions that might be taken.

Deputy Secretary Parnell responded that he agreed that building a record was appropriate and supported the suggestions that Deputy Secretary Robson had made. Mr. Crowder indicated that it should be recognized that there are significant controls in place and that the problems with BNL had been uncovered and disclosed to OMB because of them. Mr. Danzansky strongly seconded Mr. Crowder's point.

Under Secretary Kimmitt observed that the Middle East peace process was at a vital point and proceeding quickly with the proposed program would be helpful in that context. He added that he approved of the approach Deputy Secretary Robson had suggested.

Based on the foregoing discussion, including the points suggested by Deputy Secretary Robson that were subsequently accepted and reduced to writing (see attached), the NAC Deputies agreed that USDA should go forward with a FY 1990 GSM program for Iraq in up to two tranches of export credit guarantees, with each tranche not to exceed \$500 million.

DECLASSIFIED

Authority: M. A. P. D. S.Date: 12/3/52

**Summary of Agreed Points in NAC Deputies Meeting
On Proposed CCC Program For Iraq
November 8, 1989**

1. The Department of Agriculture will designate senior officials to monitor the Iraq program through appropriate channels.
2. The Department of Agriculture will suspend its program under specified conditions and will ensure the full cooperation of the Government of Iraq in uncovering and dealing with any wrongdoing in connection with the program.
3. The Department of Agriculture has reviewed the existing GSM procedures and is installing additional safeguards or controls needed to tighten the monitoring and enforcement of its guarantee programs and to raise the probability that irregularities will be detected at an early stage.
4. The Secretaries of State and Agriculture will send, for the record, letters to the Secretary of the Treasury, in his capacity as Chairman of the NAC, outlining the agricultural, trade, and foreign policy reasons which make it important to proceed with the CCC program for Iraq.
5. Prior to commitment of a second tranche under the Iraq program, the Department of Agriculture will submit a written report to the NAC detailing:
 - (a) the nature and operation of the safeguards and controls established in connection with the Iraq program in particular;
 - (b) the steps taken to tighten the monitoring and enforcement of its export credit guarantee programs; and
 - (c) developments in the investigations of the BNL scandal.

Any significant developments with respect to the BNL investigations that may have ramifications for the Iraq program will be reported to the NAC as soon as they become known.

Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20260-1400

DATE: November 8, 1989
ATTN: Honorable John P. Schmitz
Deputy Counsel to the President
FAX NO: 456-6279
FROM: Alan Charles Raul
General Counsel
USDA
FAX NO: 447-8666
TELEPHONE NO: 447-3351

There are 3 pages to this document, including the cover sheet. Please call the above telephone number if any of these pages is not received or is illegible.

Thank you.

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Marglyn Minch

564-8401



United States
Department of
Agriculture

Office of the
General
Council

Washington,
D.C.
20260-1400

November 8, 1989

**MEMORANDUM FOR JOHN P. SCHMITZ
DEPUTY COUNSEL TO THE PRESIDENT**

FROM: Alan Charles Raul *ACR*
General Counsel, USDA

SUBJECT: Iraq

Today, the NAC approved USDA's proposal for extending credit to Iraq. As we discussed, our Inspector General has provided a written assurance that "[they] have no evidence to date that would lead us to recommend that the Department should not extend the guarantees [to Iraq]." A copy of Leon Snead's November 8, 1989 memorandum for the Deputy Secretary is attached.

On the basis of our discussions, the NAC approval and the written assurance of our Inspector General, we would propose to dispatch a negotiator to Baghdad tomorrow to communicate the U.S. Government's offer.

cc: Stephen I. Danzansky



United States
Department of
Agriculture

Office of
Inspector
General

Washington,
D.C.
20250

November 8, 1989

INFORMATIONAL MEMORANDUM FOR THE DEPUTY SECRETARY

FROM: *Leon S. Smith*
Deputy Inspector General

SUBJECT: OMB Credit Guarantees to Iraq

ISSUE:

On Friday we were contacted by OMB concerning our investigation of the Banca Nazionale Del Lavoro and the Department's pending decision to extend OMB credit guarantees to Iraq. OMB expressed concern over giving credit guarantees to Iraq while this investigation is in process. We informed them that we have no evidence to date that would lead us to recommend that the Department should not extend the guarantees. We were informed that the Deputy Director of OMB would send you a memo expressing his concerns. We advised FAS on Friday of this conversation.

Also, we have discussed with FAS the issue of "after sales services." We recommended that FAS make it clear to Iraq that this is not allowable. FAS agreed to do this.



United States Department of State
Washington, D.C. 20520

CONFIDENTIAL

ACTION MEMORANDUM ⁵²
SS 1116

89259771
89 NOV-08 12:00 PM



TO: The Acting Secretary
FROM:
SUBJECT: Letter to Treasury Deputy Secretary Robson
on a CCC Program for Iraq

In your conversation earlier today, Department of the Treasury Deputy Secretary John Robson asked that you send him a letter outlining the policy reasons for which State strongly backed USDA's proposal for a full, billion-dollar program of Commodity Credit Corporation (CCC) credit guarantees, with safeguards, for Iraq. Attached is a letter for your signature that outlines those policy considerations. It essentially follows the talking points provided for your telephone conversation with Mr. Robson.

Recommendation

That you sign the attached letter to Deputy Secretary Robson.

Attachment - Proposed letter to Deputy Secretary Robson

CONFIDENTIAL

8925977

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Parnell
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'89 NOV -8 P3:54

DEPARTMENT OF STATE
WASHINGTON

November 8, 1989

CONFIDENTIAL

Dear John:

Further to our discussion, on foreign policy grounds we support the Department of Agriculture's proposal for a full, billion-dollar program of Commodity Credit Corporation GSM-102 export credit guarantees in FY 90, with adequate safeguards, for Iraq.

In addition to the near-term benefits for agricultural sales, the CCC program is important to our efforts to improve and expand our relationship with Iraq, as ordered by the President in MSD-26. Iraq is a major power in a part of the world which is of vital importance to the United States. Our ability to influence Iraqi behavior in areas from Lebanon to the Middle East peace process to missile proliferation is enhanced by expanded trade. Also, to realize Iraq's enormous potential as a market for U.S. goods and services, we must not permit our displacement as a major trading partner.

With regard to the real concerns which arise from the investigation into the operations of the Atlanta branch of the Banco Nazionale de Lavoro, we have received from the Government of Iraq a pledge of cooperation. Our intention is to hold Iraq to this commitment and to work with the Department of Agriculture to ensure that the problems with the program in the past are fully resolved in a new program. The safeguards proposed by USDA, including disbursement of the CCC guarantees in tranches, buttress the program and merit our backing.

I appreciate your support in this connection.

Sincerely,

Lawrence S. Eagleburger
Lawrence S. Eagleburger
Acting Secretary

The Honorable
John E. Robson,
Deputy Secretary of the Treasury.

CONFIDENTIAL
DECL: OADR

DATE: November 9, 1989

ATTN: Honorable John P. Schmitz
Deputy Counsel to the President

FAX NO: 456-6279

FROM: Alan Charles Raul
General Counsel
USDA

FAX NO: 447-8666
TELEPHONE NO: 447-3351

There are 3 pages to this document, including the cover sheet. Please call the above telephone number if any of these pages is not received or is illegible.

Thank you.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

November 8, 1989

Honorable Nicholas F. Brady
Secretary of the Treasury
U.S. Department of the Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

Today, the National Advisory Council on International Monetary and Financial Policies (NAC), chaired by Deputy Treasury Secretary John E. Robson, approved the U.S. Department of Agriculture's (USDA) proposal to reauthorize its guaranteed export credit program (GSM-102) to Iraq for FY 1990. We proposed to offer a program to Iraq in two stages -- an immediate tranche of \$500 million in export credit guarantees, with a later and equivalent second tranche contingent on the results of the continued investigation in the Banca Nazionale del Lavoro-Atlanta (BNL) affair.

Following the NAC's decision, I wanted you to be aware of the careful scrutiny accorded by the NAC and the positive factors that strongly counterbalance the uncertainties that cannot be fully resolved until the conclusion of all the ongoing investigations of BNL. As you know, the Office of the United States Attorney in Atlanta is currently investigating what appears to be a major case of bank fraud at BNL in connection with unauthorized loans by that branch bank to Iraq. A significant portion of those loans was made in connection with assignments taken by BNL of CCC-guaranteed credits under the GSM-102 program. USDA has been very active in monitoring this investigation, and we have been assured by our Inspector General, who is working closely with the U.S. Attorney's investigation, that he has no evidence that would lead him to recommend that the Department not extend the additional guarantees to Iraq.

As acknowledged by USDA and all the agencies represented at today's NAC meeting, there are certain risks in going forward but, after careful deliberation, we believe those risks to be outweighed by compelling foreign policy and commercial considerations. Secretary Baker has personally informed Secretary Yeutter that significant foreign policy initiatives of the United States in Iraq and the Middle East could be jeopardized by our failure to renew the Iraq GSM program promptly. In addition, Iraq represents a carefully nurtured \$1 billion annual market for U.S. agricultural goods (representing 3% of our total agricultural exports and about 20% of all rice exports). This market has been developed under the GSM program, and the Iraqis have a solid record of repaying their GSM guaranteed loans.

Several important agricultural sectors, most notably rice and wood products, are heavily invested in the continued export of products to Iraq. The failure of the United States to extend the program is already having an adverse impact on our ability to export agricultural products to Iraq. Iraq is making its purchasing decisions now. We already have information that it has made purchases on the spot markets from other countries of commodities that it has traditionally purchased from U.S. exporters under the GSM program.

Hon. Nicholas F. Brady
November 8, 1989.
Page Two

Because the investigations of BNL are ongoing, we will continue to monitor the situation carefully. If new evidence surfaces that suggests the integrity of our program has been or could be compromised and the Government of Iraq or its officials are involved, we will take appropriate action, including, if necessary, the withholding of the second tranche of credit and any unused portions of the first \$500 million.

It is also our intention, in negotiating the FY 1990 program with Iraq, to require certain additional safeguards. Specifically, we will require a clear commitment from Iraq that it will not request from U.S. exporters free goods as "after sales service" in connection with GSM sales. In addition, we will place increased requirements on Iraq to document overland shipments made from ports in other countries so that we may obtain greater assurance that there is no improper diversion of goods.

USDA continues to strengthen management of the GSM and other programs it administers. These efforts include management practices, program eligibility, required documentation, certification of U.S. content, price review and compliance.

These measures and proposals, as related to the additional GSM credit for Iraq, have been communicated to the Office of Management and Budget in response to their initial concerns regarding these matters.

Sincerely,


Jack C. Parnell
Acting Secretary

Memorandum

16



Subject CCC Payments to Iraqi Owned Banks Resulting From Iraq's Repudiation of its Debt to the U.S. Under the GSM Agricultural Credit Guarantee Program	Date April 9, 1992
--	------------------------------

To Gerrilyn G. Brill
 Acting U.S. Attorney

From Gale McKenzie *[Signature]*
 Assistant U.S. Attorney

Attached is a March 30, 1992 letter from Chairman Leahy of the Senate Agriculture Committee to the Secretary of Agriculture questioning the above-referenced payments in light of the August, 1990 Executive Order prohibiting transfer of funds to the government of Iraq. These payments to banks both owned and administered in part by Iraq occurred long after we warned CCC of the Iraqi ownership position in banks holding assignment of GSM agricultural credit guarantee program for Iraq. We raised the issue of how CCC could possibly consider, in effect, paying Iraq again for the very U.S. debt on which Iraq had defaulted.

Specifically, USDA-OIG Special Agent Art Wade consulted with Bob Kennedy of the Federal Reserve immediately upon Iraqi default after their August 2, 1990 invasion of Kuwait to determine the percentage of Iraqi ownership in banks holding assignment of CCC guarantees. This information was conveyed to the CCC Assistant Treasurer in Washington within days of invasion and months before USDA decided to make payment to banks partially owned by Iraq due to Iraq's repudiation of its debt to the U.S. The CCC Assistant Treasurer assured us that she had written up our concerns, added her concurrence with our position and referred the matter to those responsible for such payment decisions.

* [Information developed by the Northern District of Georgia was apparently discounted in reaching this policy decision, just as it was when the \$500 million in additional CCC guarantees for Iraq was approved in November 1989 after we disclosed the multibillion dollar scheme to defraud BNL for the benefit of Iraq.

cc: Rick Deane
 Bill McKinnon
 Art Wade
 Bob Kennedy

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PRINCIPALS CHANNEL 8926048
United States Department of State

FILE COPY

Washington, D.C. 20520
November 9, 1989

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UNCLASSIFIED

NOTE FOR THE SECRETARY

SUBJECT: Message to Iraqi Foreign Minister on CCC Credits

I attended a meeting Wednesday of the National Advisory Council (NAC) Deputies which approved USDA's proposal for a full, billion dollar CCC program for Iraq. (Your call to Yeutter and our subsequent efforts with OMB and Treasury paid off.) The understanding was that the program for FY 90 would be in two tranches of \$500 million each, with the second tranche being offered later in the fiscal year, assuming no further problems arise from the BNL investigation. USDA has promised to move promptly to start negotiations with Iraq on the FY 90 program.

I suggest that you break the good news to Foreign Minister Tariq Aziz, since he raised this issue with you, and you promised to take a personal interest in it. I have attached a proposed letter to Aziz which has inter-agency clearance.

178/10/12 10 Oct. 92
X X

UNCLASSIFIED

DECL: OADR

THIS DECISION BY THE ADMINISTRATION REFLECTS THE IMPORTANCE WE ATTACH TO OUR RELATIONSHIP WITH IRAQ. I APPRECIATE THE ASSURANCES YOU HAVE PROVIDED TO AMBASSADOR GLASPIE OF FULL COOPERATION BY IRAQ WITH AN INVESTIGATION OF PAST IRREGULARITIES IN THE PROGRAM. I KNOW YOU SHARE MY VIEW THE PROGRAM MUST BE FREE FROM ANY TAIN OF ILLEGALITY.

I AM ALSO SENDING YOU A SEPARATE MESSAGE ON THE ARAB-ISRAELI PEACE PROCESS. WE ARE AT A CRITICAL POINT IN OUR DIPLOMACY. THE GOVERNMENT OF EGYPT IS WORKING CLOSELY WITH PALESTINIANS TO RESPOND POSITIVELY TO OUR FIVE-POINT FRAMEWORK, ENABLING US TO GET AN ISRAELI-PALESTINIAN DIALOGUE LAUNCHED. AS THE PLO APPROACHES THIS PROCESS, IT WOULD BE USEFUL IF YOU COULD WEIGH IN WITH THEM AND URGE THEM TO GIVE A POSITIVE RESPONSE TO EGYPT'S SUGGESTIONS. I AM PERSUADED THERE ARE REAL OPPORTUNITIES HERE FOR PALESTINIANS. I AM ALSO CONVINCED THAT THERE ARE NO ALTERNATIVES TO THIS APPROACH.

I HOPE WE CAN CONTINUE TO ADDRESS THE PROBLEMS WHICH WILL INEVITABLY ARISE BETWEEN US IN THIS MANNER, BY THE FRANK EXCHANGE OF VIEWS IN A SPIRIT OF FRIENDSHIP. I LOOK FORWARD TO CONTINUED COOPERATION WITH YOU AS WE DO SO.

SINCERELY,
/S/JAMES A. BAKER III

yy

~~CONFIDENTIAL~~



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

November 14, 1989

Honorable John E. Robson
Deputy Secretary of the Treasury
U.S. Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear John:

Following last week's NAC meeting, one of our Foreign Agricultural Service officials was dispatched to Baghdad to negotiate the additional GSM export credit approved for the Government of Iraq. This note is just to let you know how it worked out: Iraq accepted our offer to extend \$500 million in new GSM-102 guarantees. Iraq did not request a commitment at this time for a second tranche of credit. Accordingly, we agreed to only a \$500 million line for Iraq, rather than the full \$1 billion commitment (in two tranches) as approved before the NAC.

This arrangement with the Iraqis will give us additional time and flexibility in reviewing any new facts surfacing as a result of the Atlanta investigations.

Thanks for your help in moving this issue along towards a reasonable and responsible disposition.

Sincerely,

Jack C. Parnell
Deputy Secretary

Subject

Response to your November 3, 1989
BNL Memo

Date

11/22/89

Robert L. Barr, Jr.
United States AttorneyFrom Gale McKensie *GM*
Assistant U.S. Attorney

The BNL investigation has continued to proceed "full-speed ahead" to the point of most agents cancelling leave during Thanksgiving week. In fact we were in the office after hours yesterday obtaining detailed information regarding personal gain from Paul VonWedel's attorney and discussing a VonWedel plea.

I have attempted to keep you advised of daily activity in the BNL investigation by typing and distributing a daily log.

Since your November 3 memo we have received a determination from Washington that we do have a "Trading with the Enemy Act" violation and it will be included in the initial indictment.

To date we have received determinations on only half of the suspect transactions regarding possible violations of the "Arms Export Control Act". Those determinations have been negative. The products, such as the nuclear fuel compressor, have dual use capacity and are therefore not licensable. Although Customs has been diligent in requesting prompt determinations such review is time consuming and the collection of documents from manufacturers, freight forwarders, customs brokers, as well as exporters is sometimes slow due to retrieval from overseas sources and from a multitude of different companies. It may take six months to complete all determinations. However, we think there may be no prosecutions in this area since initial determinations show that the Iraqis were careful to purchase dual usage equipment which, of course, can be and probably was used on the Condor II project. Such purchases and funding are not in violation of US law.

The USDA OIG yesterday found a false statement submitted to USDA by Drogoul to in connection with obtaining CCC guarantees. Therefore, there will be at least one CCC count in the initial indictment. As for the overall investigation, USDA does not feel that they can move any faster for the reasons stated in my memo of October 31. They have assigned three full time people to the case - two Special Agents and one Auditor. Since there is a possibility

that information developed during the USDA investigation can void CCC guarantees and perhaps save US taxpayers over \$1 billion, that investigation must be complete and thorough.

I have been in contact with DOJ from the beginning regarding Foreign Corrupt Practices Act and Anti-Blacklist coordination. The crucial question which has not yet been answered is whether payments were made to individuals or to the "government" itself. I still don't foresee such violations being included in the initial indictment.

The October 31st memo discussed the fact that we were investigating whether or not Drogoul had operated as a foreign agent without registering as such. The Iraqi ties were with Drogoul, not VonWedel. It still does not appear that we will have sufficient evidence in this area for inclusion in the initial indictment.

The FBI assures me that they continue to keep the Foreign Counter Intelligence desk in Washington promptly advised of all developments.

Entrade may be a corporate defendant in certain scheme to defraud BNL counts of the initial indictment. There is no evidence that any BNL employee or officer outside Atlanta had knowledge of any portion of the schemes under investigation sufficient to warrant criminal prosecution. Should export offenses be developed, non-BNL corporate and individual subjects would, of course, be identified and prosecuted.

I do not believe that any judge in the Northern District of Georgia would order pretrial detention for the five BNL Atlanta subjects due to the facts set forth in my October 31st memo.

GM:aiw

cc: Ray Rukstale
Gerrilyn Brill



UNCLASSIFIED (w/ Classified Attachment)
DEPARTMENT OF THE TREASURY
WASHINGTON

8 NOV 1989

ACTION

MEMORANDUM FOR DEPUTY SECRETARY ROBSON

FROM:

SUBJECT: Request That You Sign a Memorandum Transmitting
Draft Minutes of the November 8, 1989, NAC
Deputies Meeting on CCC Guarantees for Iraq

ACTION FORCING EVENT:

At your suggestion the NAC Deputies agreed that it would be advisable to establish a record of the National Advisory Council's consideration of the Department of Agriculture's proposal to make available to Iraq one billion dollars in credit guarantees in FY 1990.

RECOMMENDATION:

That you sign the attached transmittal memorandum to the principal participants in the November 8th NAC Deputies Meeting.

_____ Disagree _____ Let's Discuss

BACKGROUND/ANALYSIS:

The attached draft minutes incorporate the changes you made in an earlier draft. The only exception is your proposed revision of the first of the "Agreed Points" to read "...designate senior officials to specially monitor the Iraq program..." The formulation of this point that we are offering resulted from difficult negotiations with @ and we are concerned that other agreements would be jeopardized if we tried to reopen it.

ATTACHMENTS: Memorandum for Signature
Draft Minutes *(Deleted)*

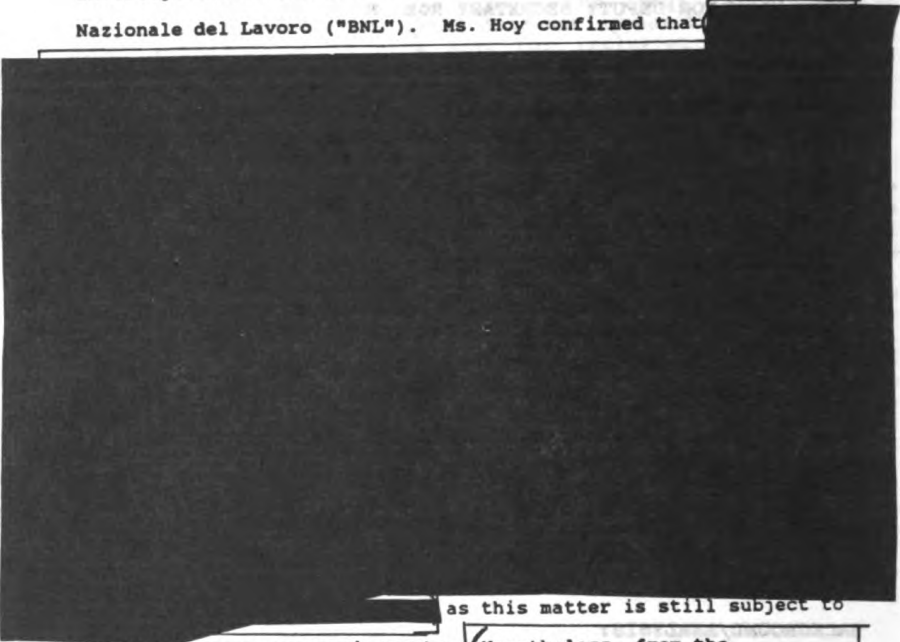
UNCLASSIFIED

~~DATE:~~ December 7, 1989


TO: Virgil Mattingly
FROM: John L. Kuray *JK*

SUBJECT: Banca Nazionale del
Lavoro/Iraqi Involvement

On December 5, 1989, I received a telephone call from Susan Hoy, who is an attorney with the legal department of the Federal Reserve Bank of Atlanta, concerning the ongoing investigation of the activities of the Atlanta branch of Banca Nazionale del Lavoro ("BNL"). Ms. Hoy confirmed that



as this matter is still subject to grand jury secrecy requirements. Nonetheless, from the information the Reserve Bank has received, it appears that the



- 2 -

have authorization to issue the letters of credit and that they assisted in concealing the existence of the letters of credit from BNL Rome. The Assistant United State Attorney has indicated to the Reserve Bank that she is still considering whether she will seek indictment of [REDACTED]

At your direction, I met with Charles Siegman, Tom Connors and Valerie Chang of International Finance and related to them the information I had received from Ms. Moy. Their particular interest relates to the Department of Agriculture's decision grant to Iraq \$1 billion in CCC credits for fiscal 1990. As you are aware, Board staff has serious reservations about Agriculture's decision based upon concerns about the creditworthiness of Iraq and the situation at BNL Atlanta. Those concerns were expressed to other interested agencies at a series of meetings by Governor Kelley, Mr. Siegman, Ms. Chang and myself.

During my meeting with Messrs. Siegman and Connors and Ms. Chang, it was decided that both Agriculture and the Treasury Department should be notified about the developments in Atlanta. To that end, on the evening of December 5, 1989, I called Ed Willingham at the Atlanta Reserve Bank and asked him to present to the Assistant United States Attorney our request that she notify Marilyn Neunch at Treasury and Kevin Broech at Agriculture of the recent developments in her investigation. Mr. Willingham-

- 3 -

indicated that he would call the Assistant United States Attorney that evening.

I again spoke with Ed Willingham on the morning of December 6, 1989, at which time he told me that he had talked to the Assistant United States Attorney the night before and relayed our request that she contact Ms. Neunch and Mr. Brosch. The Assistant United States Attorney informed Mr. Willingham that she had already spoken with Ms. Neunch and would call Mr. Brosch the following day (December 6, 1989).

After speaking with Mr. Willingham, I then placed a call to Ms. Neunch to confirm that she had spoken with the Assistant United States Attorney. I had spoken to Ms. Neunch on Monday, December 4, 1989, when she called me to express her concern about an essay by William Safire concerning the "Lavore Scandal" which had appeared in the Thursday, November 30, 1989, edition of the New York Times. During that conversation, Ms. Neunch had expressed her continuing concern about Agriculture's decision to extend the CCC credits to Iraqi and had inquired if we had any new information about the BNL investigation in general and specifically potential Iraqi involvement.

In our December 6, 1989 conversation, Ms. Neunch confirmed that she had spoken with the Assistant United States Attorney in Atlanta and was aware of the information concerning potential Iraqi involvement in the issuance of unauthorized

- 4 -

letters of credit by BNL Atlanta. She informed me that she had spoken with the General Counsel at Agriculture to inform him of what she had learned during her conversation with the Assistant United States Attorney. Ms. Neunch told me that because both Treasury and the Fed had expressed reservations about the CCC credits to Iraq that she and I should stay in close contact to monitor the situation in Atlanta, to which I agreed.

Since my conversation with Ms. Neunch I have spoken with Ms. Chang to keep her advised as to what is occurring and also at your direction called Associate General Counsel Tom Baxter at the New York Reserve Bank to advise him of the recent events.

I will continue to keep in contact with Mr. Willingham and Ms. Hoy in Atlanta and inform you of developments as they are made known to me.

During the preparation of this memorandum, I received another telephone call from Ed Willingham who advised me that [REDACTED]

[REDACTED] talking to investigators on [REDACTED]

[REDACTED] named a fourth Iraqi who had participated in concealing the existence of the unauthorized

- 3 -

letters of credit. [REDACTED] individual as the Minister of Industry and Trade, who is also the son-in-law of the President of Iraq.)

cc: Beard
Governor Kelley
Rich Ashton
Kathleen O'Day
Ted Truman
Charles Siegmán
Tom Connors
Valerie Chang

Atlanta Reserve Bank
Ed Willingham
Susan Hoy
Robert Kennedy

New York Reserve Bank
Tom Baxter

~~CONFIDENTIAL~~

DEPARTMENT OF STATE
ECON. / BUS. AFFAIRS

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FOR SAVING LIVES.

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SUBJ: DAS GERM CALL ON MINISTER OF TRADE--CCC AND
[REDACTED]

1. ~~XXXXXXXXXX~~ - (XXXX) XXX-XXXX

2. SECURITY: MEMPHIS GROUP HAS A FRAMING AND DEFEAT
EVIDENCE WITH AN-STATE OF TRANSACTING FINANCIAL
REVENUE SALES IN BILATERAL ECONOMIC RELATIONS.
SALES HAS BEEN WANTS TO EXPAND TRADE RELATIONS.
ON C.C. DECEMBER, 1940 WAS IN EVIDENCE BEEN
PENALIZED ON THE BASIS OF MISCHIEVOUS ALLEGATIONS;
THESE HAD PROCEEDED TO BARRELS THAT THEY HAD NOT
BEEN PASSED TO 1940 FOR LOCAL INVESTIGATION. HE
WISHED THAT IF THERE IS TO BE BILATERAL CONFIDENCE
AND RESPECT, POLICY SHOULD CONTINUE UNTIL SOLID
EVIDENCE IS PRESENTED. GROUP EMPLOYING BE BE
NOT APPLICABLE FOR THE NEED TO INVESTIGATE REASON
SOME REASON FOR THE NEED TO INVESTIGATE REASON

THE SECRETARY HAS, CONSEQUENTLY,
DEFERRED HIS DECISION TO OFFER A FULL
PROGRAM, IN THE ONE BILLION DOLLAR RANGE, BUT
IN THE MEAN TIME, WITH ONGOING BILATERAL
REVIEW.

--ALICE WESTER: SEE PAGE 22.

2. NEWHAS CHIEF MC PHESSION CALLED
INCREASED IN MINISTER OF TRADE AND ACTING MINISTER
OF FINANCE SAID. WHO HAS THE LEAD FOR THE GOI
ON MOST BILATERAL RESCUE OF THE ISSUES, AS WELL
AS ON THE ECONOMIC COOPERATION PROGRAM. SAID
HAD JUST RETURNED FROM JOINT COMMISSION MEETINGS
IN THE ME AND TAV.

試驗 1

4. GAYNE RECALLED THAT BOTH PRESIDENT BUSH AND PRESIDENT SAGHRIAN HAVE REITERATED THE DESIRE TO ENHANCE OUR BILATERAL RELATIONS. OUR PRESIDENT HAS REPEATED HIS PERSONAL COMMITMENT TO THIS AND THAT THE U.S. PRESS ATTACHE AND PRESIDENT'S CHIEF OF STAFF, UNQUESTIONED, OUR RELATIONS HAVE BEEN SO SUBJECT TO UNEXPECTED EVENTS THAT IT HAS RECENTLY SEEMED TO BE ACTIVITY. PROBABLY SAUL HELLER AGREED WITH GAYNE THAT WHEN PROBLEMS ARISE HE SHOULD DEAL WITH THEM IMMEDIATELY AND FRANKLY AS AN INSTRUMENT TO CLARIFY

6. CARMEN POINTED TO CCC AS AN EXAMPLE. AFTER HIS DISCUSSION WITH FORD AND AZIZ IN OCTOBER, SECRETARY SAKER WAS INVESTIGATED AND MADE A DECISION: OUR AGRICULTURAL POLICY MUST NOT BE OBSTACLE TO OTHER PROBLEMS; SINCE THERE IS NO EVIDENCE THAT THE GOV WAS INVOLVED IN MURDERING DR. AMR, A FULL PROGRAM OF CCC IN THE BILLION DOLLAR SAKER SHOULD BE OFFERED TO 1996

6. FORMER A212. CHEEN CONTINUED, AND ALREADY
ASSERTED IRAM'S WILLINGNESS TO COOPERATE IN THE
OIL INVESTIGATION. GIVEN THIS ASSURANCE, THE
SECRETARY HAD SUGGESTED THE PROGRAM BE SET OUT IN
JOINT TEACHINGS, WITH PERIODIC MEETINGS TO REVIEW
ANY PROBLEMS WHICH MIGHT ARISE. THIS REVIEW
MECHANISM WOULD, FRANKLY, BE OF POLITICAL
BENEFIT BOTH TO THE USG AND THE GOI.

7. GARDNER EMPHASIZES THAT HE WANTS TO BE SURE THE GOV UNDERSTANDS IT WAS HIS AND HIS OWN DECISION TO OFFER A FULL PROGRAM. FURTHER, GIVEN WHAT HE KNOWS NOW ABOUT THE DRL MATTER, THERE IS NO USC INTENTION TO LINK CCC WITH DRL.

8. SAILOR SAID THAT THE CON WAS "HITCHED"-THAT THE DMIL AFFAIR HAD INTERFERED ON THE CCC NEGOTIATIONS. SAILOR WANTS TO EXPAND TRADE WITH THE UNITED STATES. HAS GIVEN HIGHEST PRIORITY TO REPAYING DEBTS TO THE USG AND HAS NEVER DELAYED THESE PAYMENTS. IF THE USG HAS EVIDENCE THAT WRONG-DOING HAS OCCURRED, THEN U.S. LAW ALLOWS THE USG TO STOP THE PROGRAM. AT ANY EVENT IF SC MISSES, AND THAT RECAPS THIS AS RIGHT AND PROPER. 1000.

HOWEVER, STRONGLY OBJECTS TO THE EEC ALLOCATING
ALLEGATIONS TO AFFECT POLICY.

9. SALTIN THEN TURNED TO THE CCG VIEW THAT THE DM, SCAMPA, AND BEER MANIPULATED BY THESE HOSTILE TO IOAC TO INCREASE IOAC'S REPUTATION IN EUROPE AND THE UNITED STATES. IN THE PAST FEW DAYS, HE HAD INFORMED THE MINISTER OF FOREIGN TRADE THAT IOAC OBJECTED TO THIS TREATMENT AND HAD POINTED OUT AS A HEALTHY COUNTRY IOAC DID NOT DEPEND ON DM FACILITIES. CREDIT OBTAINED THROUGH DM COVERED ONLY A VERY SMALL PERCENTAGE IN IOAC'S OVERALL EFFORTS. FURTHER SALTIN ADDED, IF IOAC HAD YINNED TO SPEND MONEY FOR ILLEGAL PURPOSES WHICH IT DID NOT, IT WOULD USE CASH, NOT CREDIT.

10. GREEN THANKED THE MINISTER FOR HIS FRANKNESS AND SAID HE WOULD BE EQUALLY CANDID. IN THE U.S., WHAT HAPPENED AT DUE IS PROPERLY A RANKING PROBLEM. RANKING LIES ARE INVESTIGATORY PRACTICES ON THE TOPICS OF CURRENT ACTIVITY.

OUT. ADDITIONALLY, THERE WERE ALLEGATIONS THAT THE AGENCIES INVOLVED CCC. USC OFFICIALS HAVE AN OBLIGATION TO INVESTIGATE THAT. WE DID SO AND CONCLUDED ON THE BASIS OF INFORMATION AVAILABLE THAT THE ALLEGATIONS WERE BASELESS. FINALLY, WE WANT AHEAD WITH THE CCC PROGRAM. THE PUBLIC ALLEGATIONS WERE EMBARRASSING NOT ONLY TO THE GOV BUT TO THE USC. WE WANT TO CONFIRM, TO BE CLEAR, THAT WE WANT TO CONFIRM TO THE PUBLIC THAT WE ARE NOT GOING TO INVESTIGATE ANY MORE.

DEPARTMENT OF THE ARMY, WASHINGTON, D. C. 20315-5000/AFRC/CD

1. RELEASE
 2. EXCISE
 3. ~~FILE~~
 4. ~~DELETE~~ Non-Responsive Info
 5. FOIA Exemptions
 6. PA Exemptions

1. DECLASSIFY
 2. DECLASSIFY
 3. IN PART

MR Cases Only:
EO Challenge

Date. 2/2/92

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THE UNIVERSITY OF

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~~CONFIDENTIAL~~
DEPARTMENT OF STATE
ECON. / BUS. AFFAIRS

INCOMING

PAGE 02 OF 03 BACDIA 02710 00 OF 04 101400Z
OUR PRESENT HAS INDICATED US TO PROCEED, AND
IN THIS SENSE THE INVESTIGATION HAS HAD A
POSITIVE EFFECT.

4647 E00347

AND THIS WAS PARALLEL IN THE
WORLD PRESS. THIS UNDERSTANDS FREEDOM OF
SPEECH IN THE WEST, BUT STILL BELIEVES THAT A
POLICY SHOULD NOT BE CONTAINED WITH AN AMERICA-
TION TURNS UP SOME-ONE. THE USG READY HAS
THE AUTHORITY TO STOP THE PROGRAM PLEASE. THE
REGISTER SAYS: DO NOT LET "DISCOURAGEMENT" PREVENT
US FROM A USG POLICY. AND REVEALS: HE WOULD
OUR IDENTITY IS MORE IMPORTANT THAN THAT OUR
ECONOMY. THAT IS WHY MANY'S U.S. LAWYERS
ARE PREPARING TO SUE PRESIDENTLY ONLY IN U.S.
COURTS FOR OWN DAMAGES AND DEGREE OF CONTRACT.
SOME. HE SAYS: THERE WAS NO WAY TO DENY
OUR RELATIONS HAVE SUCCEEDED. THOUGH HE FEELS
THE CON AND USG WANTED THAT TO HAPPEN.

LAST PHRASE:

12. SAH HE SAYS THE DECISION TO OFFER INITIALLY
ONLY ONLY A BILLION AND HOPES THE CON EFFORT
TO DEMONSTRATE TO OTHERS THAT THE CON AND FOUND NO
FORTH SOME-ONE. THE ONLY A CON OFFER WAS
INTERPRETED AS LACK OF USG CONFIDENCE IN
HIM.

13. IN RESPONSE TO CHEN'S QUESTION, SAH'S
DEPUTY SAYS THAT HE HAS AGREED WITH CHEN
NEGOTIATIONS THAT THEY WOULD LIKE AT THE SECOND
TRANCHE IN LATE JANUARY OR FEBRUARY. CHEN
REPEATED THAT THE CON SAYS IT WAS UNACCEPTABLE
CON POSITION -- THE CON HAS INCURRED A FULL
PROGRAM FOR TIME. SAH'S DEPUTY AL-
LEGATED HIS CONCERN ABOUT BEING FORWARDED
UNWITTINGLY BEING THAT IT IS NOT ONLY IMPORTANT FOR
HIM TO BUY IN CHINA AS THIS IS AND TO PROTECT
ITS PURCHASES NATIONALLY, BUT SOME OF THE COUN-
TRY'S ECONOMIC (E.G., COTTON). THE CON HE AGREES
MUST PLAN AHEAD TO FIND ALTERNATIVE SOURCES OF
U.S. CREDITS WILL NOT BE AVAILABLE. HE CONFIRMED
THAT FORTH WITHIN OF U.S. INTEREST IN THE
SECOND TRANCHE IN THE JANUARY TIME FRAME WAS
ACCEPTABLE.

CHEN WANTED:

14. THE ADVISOR REITERATED THAT HAD AND DE-
TERMINED ON A CONSIDERABLE 1000 TONNAGE AND A
OFFICE FROM CHINA.

15. SAH HE EMPHASIZED THAT HE WAS CERTAIN THE
CON WAS PROBABLY BEING AT THE POSSIBILITY TO
STRUCTURE THE B-2777, B-2778, B-2779, IN FACT,
HOWEVER, ON 5-27-77, THE CON WAS

DECIDED TO GET BACK. HE HAD, FOR EXAMPLE, JUST
TOLD THE OFFICES THAT THE CON WOULD BEGAIN TO PAY
CASH FOR PHARMACEUTICALS, AND LATER WOULD THE
OFFICE ABOUT TEN MONTHS IN THE 15 PERCENT
PROGRAM.

4647 E00347

16. CHEN SAID THAT EVEN WHEN THE ADVISOR TO
TELL HIM THE CON NO LONGER WANTED THE CON SHORT
TERM CREDIT, THE USG WOULD PROCEED THE WANTED
APPROX. AS A POLITICAL STATEMENT THAT HE OPPOSE
THE UNFOUNDED ALLEGATIONS THAT LED HAD TO BE
INCLUDED IN THE SAME CATEGORY WITH LIVING, SAVING
AND MORE.

CHEN'S CONCERNING:

17. CHEN CONCLUDED BY SPEAKING DIRECTLY ABOUT
HIMSELF. HE EMPHASIZED OUR SPEECH CONCERN ABOUT
PROCUREMENT IN THE U.S. BY OTHER MEANS FOR CON
AND WOULD FACILITIES. EITHER BY CONSEQUENTS
OR GOVERNMENTAL AGENTS IN THE U.S. HE HAD SOME-
TIMES FOUND PROCUREMENT EFFORTS FOR US BY HAD
WHICH APPEARED TO BE COMPLETELY UNACCEPTABLE TO US.
CHEN EMPHASIZED THAT THE USG AND US DESIRE TO
BE A PARTY TO UNCONTROLLED PROGRAMS THAT LED
TO PROLIFERATION IN THESE AREAS. THIS APPLIED
THROUGHOUT THE WORLD NOT JUST TO HAD.
HAD SHOULD RESPECT OUR POLICY AND STOP LIVING AND
REUSE THIS AS A PROBLEM IN OUR EFFORTS TO
IMPROVE RELATIONS.

18. SAH HE SAYS HE UNDERSTOOD ENTIRELY AND WOULD
FOR ONLY THAT, AS CHEN HAS SUGGESTED FOR US,
WHEN HE SEE SUCH PROBLEMS EMERGING, HE WILL
THE OTHER SIDE IMMEDIATELY.

CONCLUSION AND RECOMMENDATION:

19. ASKED BY CHEN HOW THE CON WOULD HE WOULD
PROCEED BY CON. CHEN SAID THAT IDEALLY HE
WOULD "RECEIVE A SIMPLE TELETYPE" ADVISING THAT
THE GENERAL ADMINISTRATION IS READY TO APPROVE
THE SECOND TRANCHE, AND ASKING FOR THE WANTED LIST
OF PRODUCTS.

20. AFTER THE MEETING, CHEN SAID PRIVATELY
WITH CHEN ABOUT HIS NEED. PURCHASING ON BEHALF
OF THE CON. TO PROTECT PURCHASES AT THE CHEAPEST
TIME OF THE YEAR. NOTING AGAIN THAT SOME PRODUCTS
ARE SEASONAL. ON FORTS, THE CON CANNOT
DELAY PURCHASING. HE STRESSED: WHILE THERE
IS NO SUCH NEED IN ORDERS FOR SUCH PRODUCTS AS
WINE.

21. ACTION RECOMMENDED: THE USG SHOULD BEGIN AND
ANY NECESSARY INTERNAL DELIBERATIONS IN ORDER TO
BE ABLE TO CONVEY OUR RESPONSES TO CHEN BY THE
SECOND TRANCHE IN JANUARY. SUCH AN ACTION
IN THIS TIME FRAME WILL UNDERSCORE THE U.S.
DETERMINATION TO MAINTAIN THIS IMPORTANT LINK
IN OUR RELATIONS. (WHEN THE U.S. BEGINS TO
PROCEED WITH A FULL RESPONSE THIS YEAR, WE SHOULD
BE REFLECTING IT IN THE PRACTICAL.

CONCERN EMPHATIC: THERE ARE MANY OFFICIALS

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

INCUMING

DEPARTMENT OF STATE
ECON. / BUS. AFFAIRS

PAGE 23 OF 23 PAGE 04 06710 02 OF 04 1014042 0647 1014042
02 050711

~~CONFIDENTIAL~~



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

DATE: December 15, 1989

ATTN: Honorable Stephen L. Danzansky
Deputy Assistant to the President
and Director, Office of Cabinet Affairs

FAX NO: 456-7739

FROM: Alan Charles Raul
General Counsel
USDA

FAX NO: 447-8666
TELEPHONE NO: 447-3351

There are ⁴4 pages to this document, including the cover sheet. Please call the above telephone number if any of these pages is not received or is illegible.

Thank you.

NY Times 11/30

A31

ESSAY | William Safire

The Lavoro Scandal

A parade of F.B.I., I.R.S. and Customs agents, accompanied by Justice Department lawyers and the Inspector General of the Department of Agriculture, have been descending on the office of the U.S. Attorney in Atlanta to help with what Federal lawmen say is a "long-term investigation" into what international bankers call "the Lavoro affair."

Although most of the probes do not yet understand the scope of their assignment, they may turn up the first major embarrassment of the Bush Administration.

On the surface, it seems like just another big bank fraud case. The Atlanta branch of Italy's Banca Nazionale del Lavoro apparently secretly approved some 2,500 letters of credit, totaling \$3 billion, to exporters in the U.S. and Europe to finance exports to Iraq. The Iraqis have not yet paid; the bank in Italy blames its Atlanta managers for exceeding its limits; the bank is thus out on a limb, which worries only Italians.

What should worry Americans is this: A large chunk of that unpaid money is guaranteed by our Department of Agriculture's Commodity Credit Corporation. If the bank does not collect from Baghdad, it collects from the U.S. taxpayer.

This is the sort of vulnerability to which we were unwittingly exposed in the savings and loan ripoffs. Nobody in authority is held responsible (it's all so complicated, our confused regulators claim) and another billion dollars goes down the drain.

Deeply damaging is the lackadaisical attitude of the bureaucrats who are charged with limiting our liability. Fully aware that Iraq — cash-strapped after its war — is up to its hips in the Lavoro scandal, and that the Department of Agriculture's Inspector General is actively cooperating with the investigatory task force, our open-handed U.S.D.A. last week approved another half-billion dollars in export credit guarantees to Baghdad.

That failure to close the barn door is only the beginning. Let's presume that Iraq's dictator, Saddam Hussein, pays up, possibly by borrowing on our credit elsewhere; New York's Federal Reserve regulators, as well as Georgia's state banking authorities, will say that nobody got hurt.

The next layer of the investigation should then be ripe for exposure, if the probes follow their leads: Was the U.S. Government's guarantee to the exporters, supposedly to help our farmers sell their grain and our manufacturers sell their farm equipment and fertilizer, really used for that high purpose?

Or was a large part of the Lavoro \$3 billion paid to exporters of machin-

ery and materials and chemicals to help Iraq build poison gas facilities and long-range missiles?

In The Financial Times last week, Alan Friedman reported that Lavoro's letters of credit went to a series of companies in the U.S., Britain and West Germany that produce high-technology machine tools. Curious; Iraq is working with Egypt and Argentina to produce the Cossack II, a

Cloud on the horizon.

missile knocking off the technology of our Pershing I.

We were rightly critical of the West German Government for covering up the involvement of its nationals in Iraqi poison gas production; we cannot turn a blind eye to our own blundering guarantees of Iraq's investment in missile technology.

Money is as fungible as grain or oil. Here is Iraq, a terrorist state known to be building atomic and poison gas facilities, getting its only major Western billions in secret from an Italian bank through a branch in Atlanta, U.S.A. — which Iraq then uses to import technology that may enable it to blackmail the world.

And nobody in banking regulation or Treasury or C.I.A. noticed the flow of the dough. (A suspicious Federal Reserve employee blew the first whistle, I hear, but the Fed was too long asleep at the switch.)

No wonder the Department of Agriculture is frozen in panic: when the tip of this iceberg emerges in Atlanta next week, its foreign operations under the C.C.C.'s Lawrence McElvain will come under heated Congressional scrutiny. Secretary Clayton Yeutter, now overseen with the rest of the Bush Cabinet, will not want to be the next regulator occupying Danny Wall's hotseat.

The U.S. Attorney in Atlanta, Bob Barr, will say only "this is a multi-jurisdictional, multi-agency matter." He is a former legislative aide at the C.I.A. and should understand some of the international ramifications of his case; the assistant in charge of the case, Gail MacKenzie, will soon become the best-known American woman in Rome.

Intrigue, corruption, incompetence, malfeasance, quadruple bookkeeping, kickbacks by merchants of death — they lurk.

□

BANCA NAZIONALE DEL LAVORO (BNL)

Recently, articles in the press have discussed aspects of the so-called "Lavoro Affair" -- the investigation of alleged bank fraud at Banca Nazionale del Lavoro-Atlanta (BNL) involving off-the-book loans made to Iraq. Some questions have been raised regarding credit facilities provided to Iraq including export credit guarantees extended under the GSM-102/103 programs administered by the Commodity Credit Corporation (CCC), an instrumentality of the U.S. Department of Agriculture. A number of facts about the GSM-102/103 programs may be helpful in understanding the situation in the BNL matter, and the status of the programs with respect to Iraq.

- o The GSM-102/103 programs are not foreign aid or foreign assistance programs. Rather, these programs were instituted to assist the U.S. agricultural sector to develop and maintain commercial export markets for U.S. agricultural products. GSM export credit guarantee programs provide short term or intermediate term credit facilities to allow U.S. agricultural exporters to sell their products to countries that are unable to participate at the current time in the cash markets, but who are able to repay on a commercial basis over a more extended term. Iraq is only one of more than forty countries currently participating in these programs; more than eighty different types of U.S. agricultural commodities have benefitted from these programs since their inception.

- o The decision to extend lines of credit guarantees to foreign countries is made by USDA/CCC only after consultation with other federal departments and agencies through an interagency consultation process. Through the National Advisory Committee on International Monetary and Financial Policy, USDA/CCC consults with the major federal agencies concerned with international credit policy, including the Departments of the Treasury, Commerce and State, the Federal Reserve, the Office of the U.S. Trade Representative, the Ex-Im Bank and others. The decision whether to extend credit guarantees, and for how much, is the result of very thorough review of many factors, including considerations of creditworthiness, past performance in the program by the foreign country, benefits to U.S. agricultural sectors, and long term market opportunities.

o The decision to extend the current line for FY 90 of \$500 million in export credit guarantees represents the result of close interagency scrutiny of the Iraqi situation, including consideration of factors arising from the BNL matter. The current line represents a decrease of approximately 50% from the line of credit guarantees extended during each of the past two years.

o Under the GSM credit guarantee programs, the CCC issues guarantees to U.S. exporters. The CCC guarantee covers the risk of non-payment by a foreign bank under a letter of credit opened to finance the purchase of U.S. agricultural exports. The CCC qualifies foreign banks for participation. In Iraq, the CCC has qualified Bank Rafidain, which has had a superior record of repaying all loans which were made subject to the GSM programs. Thus, the CCC's risk with respect to GSM loans to Iraq booked by BNL is the risk of non-payment by Iraqi banks and is unrelated to the financial position of BNL.

o Since 1983, CCC has approved credit guarantees for approximately \$4.6 billion in connection with export sales of U.S. commodities to Iraq. To date, no claims have ever been made on the CCC as a result of any Iraqi default. CCC's records indicate that Iraqi banks have consistently and fully met their obligations under these sale and loan agreements.

o Since early September, when the Lavimo affair first became public, representatives of the USDA Office of Inspector General, of the USDA Office of the General Counsel and of the CCC have been involved in investigating possible impropriety at BNL with respect to CCC programs. Those investigations are on-going, and USDA is cooperating fully with the investigation being conducted by the Office of the United States Attorney in Atlanta.

o CCC guarantees are extended only for credit sales of U.S. agricultural exports, and only to export companies operating in the United States. BNL may have lent money to Iraq for non-agricultural products, but none of those sales would have been eligible for CCC guarantees. According to press reports, BNL had current loans to Iraq booked at approximately \$3 billion. The amount of CCC guaranteed loans in that portfolio was approximately \$700 million for all shipments of agricultural commodities. The remainder of the portfolio did not involve CCC guarantees.

o CCC extends credit guarantees to exporters of U.S. agricultural goods who may, at their option, assign their rights to sale proceeds (and the related guarantee) to a bank or other financial institution. The CCC did not issue guarantees to BNL; rather, BNL received assignments of those guarantees from various exporters.

o Iraq has consistently met its financial obligations in connection with this program, and, in recent days, has publicly expressed its intentions to continue to do so. In addition, Iraq is the tenth largest foreign market for U.S. agricultural exports (in particular, purchasing approximately 20% of U.S. rice exports).

o CCC has safeguards to ensure the integrity of the GSM programs, and is monitoring the situation arising out of the Laverio matter very carefully. CCC is in a position to take whatever action is necessary should the situation change.

December 22, 1989

MEMORANDUM FOR THE FILE

FROM: JAY S. BYBEE *JSB*
ASSOCIATE COUNSEL TO THE PRESIDENT

SUBJECT: The CCC and the Banca Nazionale de Lavoro Scandal

JPS requested that I review these materials and contact Alan Raul. Alan indicated that the summary was prepared for the Chief Counsel of the (Senate?) Agriculture Committee and that the Department of Agriculture would ask that the document be treated as confidential. Alan gave me an update on the situation.

I stated that we had no legal objections to the paper.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

*Banca Nazionale
del Lavoro*

DEC 22 1983

TO: James Cubie
Chief Counsel
Senate Committee on Agriculture, Nutrition
and Forestry

FROM: *CD* Paul Dickerson
General Sales Manager and Associate
Administrator

SUBJECT: GSM 102/103 Programs Involving Iraq

As we discussed in the briefing on Monday, December 4, I agreed to provide your staff with an update and comments on the Iraq situation in connection with the GSM 102/103 programs and the investigation of the alleged bank fraud at Banca Nazionale del Lavoro in Atlanta.

Enclosed is an informal response to your request. We would request that you keep this information confidential.

Enclosure

BANC^A NAZIONALE DEL LAVORO (BNL)

Recently, articles in the press have discussed aspects of the so-called "Lavoro Affair" -- the investigation of alleged bank fraud at Banca Nazionale del Lavoro-Atlanta (BNL) involving off-the-book loans made to Iraq. Some questions have been raised regarding credit facilities provided to Iraq including export credit guarantees extended under the GSM-102/103 programs administered by the Commodity Credit Corporation (CCC), an instrumentality of the U.S. Department of Agriculture. A number of facts about the GSM-102/103 programs may be helpful in understanding the situation in the BNL matter, and the status of the programs with respect to Iraq.

- o The GSM-102/103 programs are not foreign aid or foreign assistance programs. Rather, those programs were instituted to assist the U.S. agricultural sector to develop and maintain commercial export markets for U.S. agricultural products. GSM export credit guarantee programs provide short term or intermediate term credit facilities to allow U.S. agricultural exporters to sell their products to countries that are unable to participate at the current time in the cash markets, but who are able to repay on a commercial basis over a more extended term. Iraq is only one of more than forty countries currently participating in these programs; more than eighty different types of U.S. agricultural commodities have benefitted from these programs since their inception.

- o The decision to extend lines of credit guarantees to foreign countries is made by USDA/CCC only after consultation with other federal departments and agencies through an interagency consultation process. Through the National Advisory Committee on International Monetary and Financial Policies, USDA/CCC consults with the major federal agencies concerned with international credit policy, including the Departments of the Treasury, Commerce and State, the Federal Reserve, the Office of the U.S. Trade Representative, the Ex-Im Bank and others. The decision whether to extend credit guarantees, and for how much, is the result of very thorough review of many factors, including considerations of credit-worthiness, past performance in the program by the

foreign country, benefits to U.S. agricultural sectors, and long term market opportunities.

o The current decision to commit to an initial tranche of \$500 million during FY 90 represents the result of close interagency scrutiny of the Iraqi situation, including consideration of factors arising from the BNL matter.

o Under the GSM credit guarantee programs, CCC issues guarantees to U.S. exporters. The CCC guarantee covers the risk of non-payment by a foreign bank under a letter of credit opened to finance the purchase of U.S. agricultural exports. CCC qualifies foreign banks for participation. CCC has safeguards to insure the integrity of the GSM programs. In Iraq, CCC has qualified Bank Rafidain, which has had a superior record of repaying all loans which were made subject to the GSM programs. Thus, CCC's risk with respect to GSM loans to Iraq booked by BNL is the risk of non-payment by Iraqi banks and is unrelated to the financial position of BNL.

o Since 1983, CCC has approved credit guarantees for approximately \$4.6 billion in connection with export sales of U.S. commodities to Iraq. To date, no claims have ever been made on CCC as a result of any Iraqi default. CCC's records indicate that Iraqi banks have consistently and fully met their obligations under these sale and loan agreements.

o Since early September, when the Lavoro affair first became public, USDA's Office of Inspector General has been conducting an investigation with the Office of the United States Attorney in Atlanta regarding possible improprieties with respect to CCC programs. USDA's Office of the General Counsel and CCC have also been conducting an administrative inquiry. Those investigations are on-going.

o CCC guarantees are extended only for credit sales of U.S. agricultural exports, and only to export companies operating in the United States. BNL may have lent money to Iraq for non-agricultural products, but none of those sales would have been eligible for CCC guarantees. According to press reports, BNL had current loans to Iraq booked at approximately \$3 billion. The amount of CCC guaranteed loans in that portfolio was approximately

\$700 million in principal for all shipments of agricultural commodities. The remainder of the portfolio does not involve CCC guarantees.

o CCC extends credit guarantees to exporters of U.S. agricultural goods who may, at their option, assign their rights to sale proceeds (and the related guarantee) to a bank or other financial institution. CCC did not issue guarantees to BNL; rather, BNL received assignments of those guarantees from various exporters.

o Iraq has consistently met its financial obligations in connection with this program, and, in recent days, has publicly expressed its intentions to continue to do so. In addition, Iraq is the tenth largest foreign market for U.S. agricultural exports (in particular, purchasing approximately 20% of U.S. rice exports).

o USDA is continuing to investigate the situation arising out of the Lavoro matter and is prepared to take whatever action is necessary as a result of these ongoing investigations.

407

1990

January 6, 1990

To: NSC - Dan Levin

From: State L/

Dan,

Attached please find the documents needed now to move forward with the Iraq/Exim Determination: (1) the Determination itself, and (2) the Justification.

Please call if you have any questions.

Presidential Determination
No. _____

MEMORANDUM FOR THE SECRETARY OF STATE

SUBJECT: Application of Export-Import Bank restrictions
in connection with Iraq

By virtue of the authority vested in me by Section 512 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 (P.L. 101-167), I hereby determine that, with respect to Iraq, application of the prohibition contained in that section to the Export-Import Bank or its agents is not in the national interest of the United States.

This memorandum shall be published in the Federal Register.

MEMORANDUM OF JUSTIFICATION
FOR WAIVER OF EXPORT-IMPORT BANK RESTRICTIONS
WITH RESPECT TO IRAQ

Section 512 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 (P.L. 101-167), provides that the prohibition on obligations and expenditures contained in that section, which applies to nine specified countries (including Iraq), shall include direct loans, credits, insurance and guarantees of the Export-Import Bank (Exim) or its agents. The legislation provides, however, that the prohibition shall not apply to Exim or its agents if "in the judgment of the President its application is not in the national interest of the United States" and this determination is reported to Congress. The legislative history makes clear that the Presidential waiver authority was added to section 512 during Senate floor debate on P.L. 101-167 with Iraq specifically in mind.

Since 1985, Exim has made short-term credit insurance available to Iraq on a rotating basis with a \$200 million ceiling. Due to arrearages in Iraqi servicing of some loans, Exim temporarily suspended this facility. As soon as Iraq pays these arrearages, it again would be eligible for Exim coverage. However, without a waiver of section 512, the credit insurance facility for Iraq is now prohibited. The continuation of this prohibition would have a damaging effect on our bilateral relationship, and would not be in the national interest of the United States.

Iraq is a major military power in the Persian Gulf and increasingly influential in the Arab World. It is also an important supplier of petroleum for the U.S. market. It is in the national interest of the United States to maintain existing economic and political incentives, such as the short-term Exim credit insurance, to encourage Iraq to moderate its behavior and increase our ability to deal effectively with Iraq on issues of importance to the United States. We also wish to pursue and seek to facilitate opportunities for U.S. firms to participate in the post-war reconstruction of the Iraqi economy. Although we continue to have problems in a number of areas with Iraq, including human rights, there have been no recent events that would justify a total prohibition of Exim financing at this time.



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

000167

TO: Alan Charles Reul
General Counsel

THROUGH: Thomas V. Conway
Associate General Counsel

FROM: Kevin J. Brosch
Attorney, Foreign Agriculture
and Commodity Stabilization Division

SUBJECT: Current Status in Banca Nazionale del Lavoro
(BNL) Investigation

I spoke this morning with Assistant U.S. Attorney Gale McKenzie who is directing the investigation of the BNL affair in Atlanta. Ms. McKenzie cautioned that she is unable to disclose much detail about the status of the investigation because they are at a very critical stage in dealing with various targets of the investigation, and that disclosure of information about either investigation, could be harmful to the case.

Ms. McKenzie did disclose the following, and asked that this information be discussed on a need-to-know basis only:

- o The U.S. Attorney will seek indictments from the grand jury possibly by the middle of February. Indictments may include officers or former employees of BNL, and could include at least one other entity.
- o The U.S. Attorney expects that there may be plea agreements entered in the case prior to indictment, including some plea agreements that may involve alleged wrongdoing with respect to Commodity Credit Corporation programs.
- o The indictments in February will not end the BNL investigation. At the current time, the U.S. Attorney's office will continue to pursue information with respect to other aspects of the BNL loan transactions.



DEPARTMENT OF THE TREASURY
WASHINGTON
January 16, 1990

MEMORANDUM FOR DEPUTY SECRETARY ROBSON

THROUGH: Under Secretary Mulford
FROM: Assistant Secretary Dallara
SUBJECT: IRAQ and CCC

*John - sounds fine
margin is ok
Call a meeting &
considering suspension of
remainder of first tranche.*

USDA Under Secretary Crowder provided the following status report to Bill Barrera on CCC activity with Iraq.

- The Iraqis have used \$170 million of the first tranche of the \$500 million.
- USDA has found unusually large profit margins on the sale of wheat to Iraq last year by Entrade, the firm most suspect in the Atlanta case.
- These large margins raised the possibility of kickbacks.
- USDA has subsequently found equally large margins by other grain sellers to Iraq.
- Now it is not clear whether there is illegal activity by many or simply that Iraq is a bad buyer.
- He will not approve the second tranche of \$500 million until he is satisfied with the results of the investigation (although State is encouraging him to issue the second tranche).
- He does not now think it appropriate to suspend the first authorization based on the inconclusive evidence available.
- He will be careful. He knows the risks.

cc: *General Counsel*

Memorandum for Deputy Secretary Robson re Iraq and CCC

Initiated by: WEBBarreda WBB 1/11 2124-21

TREASURY CLEARANCE SHEET

NO. _____

Date _____

MEMORANDUM FOR: ☐ SECRETARY ☐ DEPUTY SECRETARY ☐ EXECUTIVE SECRETARY
☐ ACTION ☐ BRIEFING ☐ INFORMATION ☐ LEGISLATION
☐ PRESS RELEASE ☐ PUBLICATION ☐ REGULATION ☐ SPEECH
☐ TESTIMONY ☐ OTHER _____

FROM: Charles DallaraTHROUGH: David MulfordSUBJECT: TPAG and CCC

REVIEW OFFICES (Check when office clears)

☐ Under Secretary for Finance☐ Domestic Finance☐ Economic Policy☐ Fiscal☐ FMS☐ Public Debt☐ Under Secretary for International Affairs☐ International Affairs☐ Enforcement☐ ATF☐ Customs☐ FLETC☐ Secret Service☐ General Counsel☐ Inspector General☐ IRS☐ Legislative Affairs☐ Management☐ OCC☐ Policy Management☐ Scheduling☐ Public Affairs Liaison☐ Tax Policy☐ Treasurer☐ E & P☐ Mint☐ Savings Bonds☐ Other _____

NAME (Please Type)	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
<u>W E Lorrada</u>				<u>566-274</u>
REVIEWERS				

SPECIAL INSTRUCTIONS

(mulford was co'd)

cc: Hollis McLaughlin
 CH-2
 EC-PC
 MURKIN

1-11-90

4929

Federal Register

Vol. 35, No. 25

Friday, February 9, 1969

Presidential Documents

Title 3—

Presidential Determination No. 68-7 of January 17, 1969

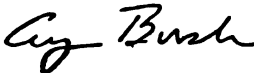
The President

Application of Export-Import Bank Restrictions in Connection With Iraq**Memorandum for the Secretary of State**

By virtue of the authority vested in me by Section 512 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1960 (P.L. 86-187), I hereby determine that, with respect to Iraq, application of the prohibition contained in that section to the Export-Import Bank or its agents is not in the national interest of the United States.

You are directed to report this Determination to the Congress and to have it published in the Federal Register.

THE WHITE HOUSE,
Washington, January 17, 1969.



PR Doc. 68-3257
Filed 3-6-69; 11:23 am
Billing code 2795-01-54



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

24 JAN 1990

TO: Alan Charles Raul
General Counsel

THROUGH: Thomas V. Conway
Associate General Counsel

FROM: Kevin J. Brosch *KJB*
Attorney, Foreign Agriculture
and Commodity Stabilization Division

SUBJECT: Current Status in Banca Nazionale del Lavoro
(BNL) Investigation

I spoke this morning with Assistant U.S. Attorney Gale McKenzie who is directing the investigation of the BNL affair in Atlanta. Ms. McKenzie cautioned that she is unable to disclose much detail about the status of the investigation because they are at a very critical stage in dealing with various targets of the investigation, and that disclosure of information about either investigation, could be harmful to the case.

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cc: TVConway
RBullington
KJBrosch

OGC:FACSD:KJBrosch:1/23/90 FACS disk under Banca

25 JAN 1990

REPLY TO

ATTN OF: At-720-2

SUBJECT: Banca Nazionale del Lavoro, Atlanta, GA
and Entrade, New York City, NY

TO: Richard T. Crowder
Under Secretary, International Affairs
and Commodity Programs

My Southeast Regional Office has been working closely with the United States Attorney for the Northern District of Georgia, Atlanta, GA in an investigation of the subject bank and commodity broker/exporter.

Our investigation and a related grand jury investigation is likely to result in criminal indictments in the near future. However, the United States Attorney's Office, in coordination with my staff and the Office of General Counsel, is negotiating a plea agreement with Entrade's counsel. That agreement is likely to be reached soon.

Entrade officials are willing to cooperate with the government in its ongoing criminal investigation. Therefore, I recommend that you do not take action to suspend and/or debar Entrade at this time. The firm is no longer participating in the Department's export programs, and any such action could jeopardize the plea agreement and related investigations.


LEON SHEAD
Deputy Inspector General

cc: General Counsel
RIG/1, SER



DEPARTMENT OF THE TREASURY

OFFICE OF THE ASSISTANT SECRETARY

January 26, 1990

MEMORANDUM FOR THE FILES

FROM:

[REDACTED]

SUBJECT:

Iraq and CCC

On January 24 USDA General Counsel Alan Raul briefed Treasury and State on the status of his investigations related to the Iraq/BNL affair and the investigations by the Assistant US Attorney in Atlanta, and discussed their current thinking on the implications for the FY 1990 credit guarantee program in Iraq. Ede Holiday and John Niehuss represented Treasury. Mr. Raul was accompanied by Kevin Brosch, USDA's attorney most involved in the ongoing investigations.

USDA's investigation of Entrade focused on some 52 sales of US agricultural commodities to Iraq under a CCC guarantee between 1985 and 1989. Transaction documentation is very complete, and indicates that Entrade bought and sold US agricultural commodities on a matched trade basis.

USDA's investigation has focused on commodity pricing patterns, because other aspects of Entrade's transactions seem to be in order. (The one request for after sales service, for example, had been flatly refused.) USDA found unusually large profit margins on the sale of sugar, rice and corn to Iraq; the profit margin on wheat was normal. Other commodities (e.g. lentils) were too thinly traded to be evaluated. Further investigation yielded that higher profit margins on sales to Iraq were not unique to Entrade but seem to be partially replicated by other GSM exporters. USDA believes that in the case of sugar and possibly in the case of rice, market distortions specific to Iraq's need to buy on credit (therefore from the US) may have contributed to the unusually high profit margins. USDA remains particularly concerned, however, about the pricing patterns in corn.

Over the ten-month period April 1986 to February 1987 USDA found profit margins on sugar of \$20-40 per ton on sales of 125,000 tons of sugar, to yield a profit of about \$3-1/4 million dollars at a weighted average margin of \$27/ton. While Entrade sold sugar to Iraq at substantially above the world market price, their profit margin seemed to be only about \$10 above that of other sugar exporters. For rice,

USDA found Entrade profit margins of \$10-20 per ton, with Entrade's profit margins being only "a couple of bucks" higher than other exporters, who were also taking significant profits. For corn, Entrade undertook only two transactions, but the profits here were "way out of line" at \$16-20 per ton. On total corn trade of 175,000 tons, this yielded a profit to Entrade of up to about \$3-1/2 million.

USDA also looked at wheat. Unlike rice, sugar and corn, wheat was in general traded at competitively bid prices because all but two wheat sales were combined with USDA's Export Enhancement Program (EEP). (Under the EEP, USDA awards a sale to the exporter that offers the best price and bonus bid.) USDA found Entrade's profit margins on wheat to average \$2.11 per ton, i.e., at about the level one would expect.

USDA's findings of course raise the possibility of kickbacks and complicity by Iraqi officials. Mr. Raul mentioned that the AUSA had indicated some evidence of payments to Iraqis, with preliminary indications pointing to relatively lower-rank officials. Apparently the Assistant US Attorney conducting the BNL investigation in Atlanta needs approval of DOJ/Washington to extend her investigation to Iraq; USDA believes that such approval has been sought but not (yet) gained. Currently indictments are expected in February, with plea bargaining expected and probably additional investigations to follow. USDA believes it is in their best interest to cooperate with the AUSA, to see what comes from the plea bargaining, and to follow her lead on approaching the Iraqis.

USDA further indicated that, in light of the AUSA's findings, if she did not extend her investigation to Iraq, USDA would feel it incumbent upon them to make some sort of approach to the Iraqis. State stressed that last fall the Foreign Minister of Iraq had personally stated to Secretary Baker that the GOI would cooperate. Mr. Raul further said that if it turned out to be "one payment, to one official," then closing the program would be "irresponsible."

In discussing the continuation of the program, USDA emphasized that they have not found anything to warrant closing down the program at this time, they are implementing changes, and they are continuing to monitor carefully the situation. On the issue of after sales service, a notice has

been sent to exporters and regulations are being amended appropriately. USDA has also instituted a price check when a sale is registered; aberrant prices are looked into.

At this point, \$150-200 million of the first tranche of guarantees have been used, and another roughly \$200 million in sales are in the pipeline for export over the next two months. State expects to see a request for the second tranche coming in soon. USDA seems to think that a decision to release the second tranche may be still a couple of months down the line (and does expect, as agreed, to brief the NAC at that time).

Mssrs. Raul and Brosch didn't know which banks have picked up financing agricultural exports to Iraq, but indicated that the Bank for Cooperatives in Denver is involved and that offshore banks (e.g., the Bank of Kuwait) are picking up some of the business. (Our Iraq desk believes the Bank for Cooperatives is trying to reduce its exposure to Iraq and that Morjan is getting involved.)

ALSO: The January 25 WSJ has a story indicating that BNL will honor its outstanding credits to Iraq which Iraq will use to buy from Italy. SACE is guaranteeing BNL's exposure.



to: _____

room: _____ date: 1-22-30

Department
of the TreasuryDepartmental
OfficeOffice of the
General Counsel

I thought the attached summary on BNL might be helpful for tomorrow's 9 a.m. briefing of John Robson, as we did not get a chance to provide comments on more comprehensive memo of last Friday.

cc:



USDA

Below is a brief outline of major points from the January 24 briefing by ~~USDA~~ officials on the Iraq CCC credits/BNL investigations.

SUMMARY

State

In a January 24 update on the Iraq-BNL matter, USDA reported to Treasury and State that its own investigation of Entrade had discovered some unusually large profit margins on the sale of commodities to Iraq financed under CCC credit guarantee programs. The ongoing investigation of BNL by the United States Attorney's Office in Atlanta is expected to yield first indictments in February. USDA is continuing to provide guarantees for Iraq under the first \$500 million tranche of its FY 1990 program. It is believed that about \$403 million has been committed by Iraq and that a request for the second tranche is likely to be made quickly.

ENTRADE INVESTIGATION

A. USDA found unusually large profit margins on sales by Entrade to Iraq of sugar (\$20-40/ton), rice (\$10-20/ton), and corn (\$16-20/ton). The profit margin on wheat (\$2/ton) was normal, but the wheat was sold under not only the CCC guarantee program but also under USDA's Export Enhancement Program, which meant there was bidding among exporters.

B. The comparison of profit margins was made by using prices of other CCC-aided exporters; comparisons for the exact time period often could not be made. It appeared that other CCC-aided exporters also were receiving higher than world average prices.

USDA

C. Both ~~USDA~~ and ~~State~~ were inclined to think there had been some payments to Iraqis, and ~~USDA~~ said he was skeptical that the kickback scheme would have involved only one supplier.

USDA

-- ~~USDA~~ did not want USDA to investigate possible payments to the Government of Iraq; he also felt it would be "irresponsible" to shut down the program if there had been just one payment to one Iraqi official.

USDA

D. Remedial measures: ~~USDA~~ said that USDA was now endeavoring to make quick price checks as new registrations under the CCC program are received. In addition, USDA is planning to issue new regulations that will make clear that "after-sales services" are prohibited. There have been no recent additional complaints about such service requests from Iraq.

State

E. ~~State~~ and USDA now appear to feel a request for the second tranche of CCC guarantees will be made by Iraq within

a few weeks.

ATLANTA INVESTIGATION OF BNL

A. AUSA now expects to bring initial indictments in the case in February. It is likely these will focus on BNL officials. However, the AUSA has told USDA there will be benefits for USDA from her investigation.

B. After the initial indictments, there could well be plea bargaining and additional indictments.

C. USDA understands that the USA in Atlanta has requested but not yet received permission from the Justice Department to ask Iraqi officials for information.

POSSIBLE INTERIM REPORT FROM USDA TO MAC

A. You had been considering whether it might be appropriate to ask USDA to complete an interim report for the MAC on its investigation of Entrade (i.e., in advance of an anticipated report from USDA in conjunction with the second tranche request). Based on the information ^{USDA} OFFICER gave me January 26, it now appears that the request for a second tranche might come earlier than USDA had indicated at the January 24 meeting.

B. In response to my question, ^{USDA} OFFICER advised me on January 26 that USDA does not want to release its report on the Entrade investigation for fear of prejudicing the AUSA's investigation in Atlanta. (I have not discussed this possibility with ^{AUSA} but could if you believe it appropriate.)

Assistant U.S. Attorney in Atlanta

2013



DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

January 30, 1990

MEMORANDUM FOR THE FILE

FROM: DAVID C. MULFORD *DM*
SUBJECT: CREDIT GUARANTEES FOR IRAQ IN FY 1990

I would like to record for the record that in November, 1989 when this issue was brought to my attention that I expressed strong views in opposition to restoring the CCC program for Iraq in FY 1990. I reflected my concerns to Deputy Secretary Robson and to Assistant Secretary Dallara, as well as to members of my staff. My reason for opposition was that it seemed probable to me that the fraud case under investigation in the United States concerning Banca Nazionale del Lavoro would in due course turn up cooperation and misbehavior on the part of officials in Iraq. I saw no point in reopening the program until either it was clearly established that Iraqi officials had not been involved in the fraud or that new arrangements had been set up that would insure that officials in Iraq would not be able to take financial advantage of the reopening of CCC credits.

I did not attend meetings with the Department of Agriculture but I was under the impression that Treasury officials were willing to reopen the program on the same basis as before. I therefore refused to sign or process documents on this issue and withdrew from participating in the decisionmaking process.

CC:

DATE: February 2, 1990

ATTN: Robert S. Ross
Executive Assistant
Office of the Attorney General
Department of Justice

FAX NO: 633-4699

FROM: Alan Charles Raul
General Counsel
USDA

FAX NO: 447-8666
TELEPHONE NO: 447-3351

There are 4 pages to this document, including the cover sheet. Please call the above telephone number if any of these pages is not received or is illegible.

Thank you.

 Agriculture

Counsel

20260-1400

February 2, 1990

447-3351

BY FAX**MEMORANDUM FOR ABRAHAM D. SOFAER
LEGAL ADVISOR
DEPARTMENT OF STATE****ROBERT S. ROSS
EXECUTIVE ASSISTANT
OFFICE OF THE ATTORNEY GENERAL
DEPARTMENT OF JUSTICE****FROM:**Alan Charles Raul *ACR*
General Counsel**SUBJECT:**

Iraq

Attached for your suggestions is a possible memorandum regarding efforts to seek the cooperation of the Government of Iraq in connection with the ongoing investigations into the Banca Nazionale del Lavoro matter.

Please let me know what you think about this approach as soon as you can (preferably by Monday). I would like to finalize the memorandum after receiving your comments and advice.

Thanks.

DRAFT: February 2, 1990

MEMORANDUM FOR
LEGAL ADVISOR
DEPARTMENT OF STATE

EXECUTIVE ASSISTANT
OFFICE OF THE ATTORNEY GENERAL
DEPARTMENT OF JUSTICE

FROM: Alan Charles Raul
General Counsel

SUBJECT: Seeking Iraq's Cooperation
Regarding Certain Allegations

As you know, allegations have been raised in connection with certain loans extended by the Atlanta Branch of the Banca Nazionale del Lavoro in connection with exports to Iraq. Some of those exports involved agricultural commodities purchased by instrumentalities of the Government of Iraq with the benefit of export credit guarantees made available by the Department of Agriculture's Commodity Credit Corporation. We understand that these allegations are currently under investigation by the U.S. Attorney's office in Atlanta and by other agencies of the U.S. Government as well. The Department of Agriculture has been cooperating with the ongoing investigations and members of our Office of Inspector General are participating directly in the criminal investigation.

11 In addition to cooperating in the pending investigations, we believe we have a responsibility to monitor the situation carefully to ensure that our GSM program for Iraq is not compromised. This is consistent with the decision of the National Advisory Council on International Monetary and Financial Policies to approve the extension of additional export credits to Iraq by the Commodity Credit Corporation for fiscal year 1990, provided that additional program safeguards were put into place and the circumstances surrounding the Iraq program continued to be reviewed and evaluated. The Department of Agriculture has implemented additional safeguards and, as stated previously, has been assiduously monitoring the Iraq program.

~~CONFIDENTIAL~~
 February 2, 1990
 Page Two

We believe our due diligence in this case requires us to consult and coordinate closely with other relevant agencies. In particular, we believe that it could be useful for the appropriate U.S. Government officials to approach the Government of Iraq directly to seek their cooperation and any information that would assist us in determining whether there was any improper activity in Iraq related to the exports covered by the GSM guarantees. If any such improper activity surfaces as a result of the ongoing investigations, it will be essential for the U.S. Government to establish the role and responsibility of the Government of Iraq, or whether the questionable conduct is limited to isolated cases of individual wrongdoing.

Accordingly, we would request that, consistent with the needs of the ongoing criminal investigation, the Department of State approach appropriate officials of the Government of Iraq to (a) request their cooperation with the United States and (b) obtain Iraq's assurances that it will provide the United States with any information it learns regarding any possible wrongdoing in connection with the GSM export credit guarantee program and that, should there be any evidence of wrongdoing by Iraqis, it will assure that any such individuals are, at a minimum, immediately and entirely disassociated from the GSM Program in Iraq. The Government of Iraq should also be asked to repeat its prior assurances that it continues to stand by its financial obligations under the GSM export credit guarantee program.

If either of the Departments of State or Justice believe that a demarche to the Government of Iraq along the lines proposed in this memorandum is not appropriate at this time, please let me know. Under those circumstances, I would recommend that we develop an alternative course as soon as possible that would allow us to ascertain Iraq's position with regard to the various allegations and investigations. The Department of Agriculture is prepared to continue to work closely with you on this.

cc: C. Boyden Gray
 Edith E. Hollday
 Robert G. Damus



Office of the Attorney General
Washington, D. C. 20530

February 6, 1990

MEMORANDUM FOR MARK M RICHARD
DEPUTY ASSISTANT ATTORNEY GENERAL
CRIMINAL DIVISION

FROM:  ROBERT S. MUELLER, III
ASSISTANT TO THE ATTORNEY GENERAL

SUBJECT: MEMORANDUM FROM ALAN RAUL, GENERAL COUNSEL, USDA.

This is to bring you up-to-date on the attached. I talked to Raul yesterday and said that I saw nothing wrong with him sending the memorandum to Sofaer and to us. I saw no problem with asking for Iraqi cooperation, but since you were out of town and Gail McKenzie was unavailable, I told him we might have further comments later.

Today I talked to Gail McKenzie. She said that the Iraqis had offered cooperation previously, but until recently she did not have enough information to be able to intelligently evaluate that cooperation. She now is in a position to talk to the Iraqis. She said that you and she were concerned that the cooperation from the Iraqis be provided directly to the Department of Justice, rather than to the USDA or to State.

I thereafter called Drew Arena and requested that he or Molly Warlow coordinate with USDA, State, and Gail McKenzie to assure that DOJ is the recipient of any cooperation resulting from the demarche to Iraq.

Finally, I again talked to Alan Raul and obtained his concurrence that any cooperation resulting from this demarche would be provided to the Department of Justice. He requested that USDA also have access to the information provided by the Iraqis so that the program could be evaluated in light of that information. I told him that this would be arranged.

Attachment

cc: Robin Ross
Drew Arena (by fax)

FEB - 6 1990
mmr

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE MEMORANDUM

DATE February 6, 1990TO Legal FilesSUBJECT Recent DevelopmentsFROM Ernest T. PatrikisRegarding Banca Nazionale
del Lavoro

On February 6, I spoke with Ed Willingham, General Counsel of the Atlanta Reserve Bank, and among the topics we discussed was current developments regarding BNL. Obviously, the indictments that were expected to come down in January did not materialize. A planned trip to Italy by criminal investigators was put off because of BNL asserted concerns regarding the Italian press.

A trip to Istanbul was put off at the request of Attorney General Thornburg. The criticism of the BCCI criminal settlement has motivated the Attorney General to have the BNL matter reviewed by main Justice in Washington before any settlement is agreed to by the United States Attorney.

Ed reported that Entrade is willing to pay a \$1 million penalty provided no individual from that firm is convicted. The Iraqis are willing to sacrifice one individual to the vagaries of the United States criminal judicial system. Mr. Dragoul has retained high-powered defense counsel. All in all, Ed believes that we will hear little about this matter until some time late in March.

ETP/ac

cc: Messrs. Corrigan
Oltman
Schadrack
Baxter
O'Sullivan
Sunic

.....
 FOREIGN AGRICULTURAL SERVICE

FAST

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SUBJECT: GSM: 102 - FY90 PROGRAM CONCERNS
 1) BACKGROUND:

A US EXPORTER HAS RAISED QUESTIONS WITH REGARD TO A CLAUSE IN THEIR SALES CONTRACT, EXCERPTED AS FOLLOWS QUOTE:

SELLERS AGREE TO PAY STAMP DUTIES OF UPON RECEIPT OF ACCEPTABLE LETTER OF CREDIT, 100FILS PER 50 ID I.E. US. \$12600 ID.3927. END QUOTE
 EXPORTER SOUGHT CCC VIEW INSOFAR AS WHETHER STAMP DUTY IS DEEMED QUOTE AFTER SALES SERVICE UNQUOTE.

EXPORTER HAS BEEN ADVISED ALONG FOLLOWING LINES:

A) CCC DOES NOT/NOT VIEW INCLUSION OF COST OF STAMP DUTY IN +PORT VALUE+ FOR GSM-102 GUARANTEE PURPOSES TO BE IN KEEPING WITH PORT VALUE DEFINITION SET FORTH IN PROGRAM REGULATIONS. CLEARLY, FOREIGN STAMP DUTY IS NOT/NOT A COST ORDINARILY ASSOCIATED WITH MOVING US AGRICULTURAL COMMODITIES TO A US POINT OF EXPORT-- NOR IS SUCH STAMP DUTY TO BE REGARDED AS EITHER FREIGHT OR INSURANCE AS CONTEMPLATED BY THE CITED DEFINITION.

B) THE REQUIREMENT THAT THE SELLER PAY STAMP DUTIES IS A CONTRACTUAL REQUIREMENT, NOT AN OBLIGATION THAT COULD BE IMPOSED ON SELLER BY ORDINARY OPERATION OF LAW. IN OTHER WORDS, THE OBLIGATION, IF IT EXISTS, TO PAY A STAMP DUTY IS AN OBLIGATION OF THE PURCHASER WHO HAS CONTRACTED WITH THE FOREIGN BANK TO ISSUE A LETTER OF CREDIT. A SELLER'S CONTRACTUAL ASSUMPTION OF THE OBLIGATION TO PAY SUCH A STAMP DUTY CONSTITUTES AN +ALLOWANCE+ WITHIN THE MEANING OF 7 CFR 1493.2(0), THE GSM REGULATION WHICH DEFINES +PORT VALUE.+ U.S. EXPORTERS ARE REQUIRED BY THAT REGULATION TO SUBTRACT THE VALUE OF SUCH AN ALLOWANCE (IN THIS CASE \$12,600) FROM THE SALE PRICE TO ARRIVE AT A PORT VALUE FOR PURPOSES OF REQUESTING A GSM GUARANTEE. THIS IS BECAUSE THE CCC REGULATIONS IRREBUTABLY PRESUME THAT THE COST OF ANY SUCH CONTRACTUALLY REQUIRED ALLOWANCE IS BUILT BACK INTO THE SALE PRICE BY THE SELLER.

DRAFTED BY		CLEARANCES			
FAS/EC/CCCOD/RGodsey <i>RG</i>	Check if confirmed every needed	DICKERSON <i>AB</i>	GOLDTHWAIT	WHITEMAN	<i>14</i>
447-3224 2-2-90		REYNOLDS <i>TR</i>	DELAFLANE <i>D</i>	KUNKEL <i>BC</i>	<i>14</i>

UNCLASSIFIED

C) BEYOND THE REGULATORY PROHIBITION DESCRIBED ABOVE, CCC HAS SERIOUS RESERVATIONS ABOUT THE PRACTICE OF IRAQI PURCHASERS ATTEMPTING TO SHIFT THIS +STAMP DUTY+ TO U.S. SELLERS UNDER THE GSM PROGRAM. BECAUSE IRAQI GSM PURCHASERS ARE VARIOUS MINISTRIES AND COMPONENTS OF THE GOVERNMENT, AND THE TAXING AGENT REQUIRING THE DUTY IS ALSO A GOVERNMENT AGENCY, THE IMPOSITION OF A STAMP DUTY IS, IN EFFECT, THE IRAQI GOVERNMENT TAXING ITSELF. A TRANSACTION THAT, IN REALITY, HAS NO REAL ECONOMIC PURPOSE OR EFFECT. HOWEVER, BY ATTEMPTING TO SHIFT THE OBLIGATION FOR PAYING SUCH A TAX TO GSM EXPORTERS, THE GOVERNMENT OF IRAQ HAS DEvised A SYSTEM WHEREBY IT IS POTENTIALLY GENERATING MILLIONS OF DOLLARS IN CASH THROUGH A U.S. GOVERNMENT PROGRAM THAT IS INTENDED TO EXTEND IT CREDIT TO PURCHASE AGRICULTURAL COMMODITIES AND PRODUCTS. CCC VIEWS THIS AS AN ABUSE OF ITS PROGRAM, SIMILAR TO THE PRACTICE (WHICH THE U.S. GOVERNMENT PREVIOUSLY COMPLAINED ABOUT, AND WHICH IRAQ AGREED TO CEASE) OF REQUIRING +AFTER SALES SERVICE.+

2) ACTION REQUESTED

PLEASE OBTAIN AND PROVIDE TO CCC EXPORT CREDITS A COPY OF THE LAW AND/OR REGULATIONS (IN ENGLISH TRANSLATION IF POSSIBLE) WHICH AUTHORIZES THE IMPOSITION OF THIS +STAMP DUTY.+ CONVEY CONCERNS OUTLINED ABOVE TO APPROPRIATE IRAQI AUTHORITIES. REQUEST THAT STEPS BE TAKEN ASAP TO INSURE THAT THE PRACTICE CEASE, CONSISTENT WITH UNDERSTANDING AGREED TO AT TIME OF FY90 PROGRAM NEGOTIATIONS THAT IRAQI BUYERS WILL NO/NO LONGER REQUIRE US EXPORTERS UNDER CCC PROGRAMS TO PROVIDE ADDITIONAL SERVICES OR ALLOWANCES IN CONJUNCTION WITH GSM GUARANTEED SALES. PLEASE ADVISE OF ACTION TAKEN. YOUR COMMENTS/INSIGHTS ARE SOUGHT.

NNNN

1130 EST

MEMORANDUM



Subject Entrade Plea/Cooperation (BNL Investigation)	Date 2/9/90
To Rimantas Rukstele United States Attorney	From Gale McKenzie <i>GM</i> Assistant U.S. Attorney

As I advised you earlier this morning, Peter Clark has made no presentation to Mark Richard regarding his 1/31/90 meeting with us on the Entrade/Tezeller matter. Instead, Clark left Washington to attend an SEC seminar in Denver, Colorado.

Prior to Clark leaving Atlanta on the evening of 1/31/90, he was reminded that Mark Richard on 1/27/90 had assured us of an answer regarding DOJ approval of the proposed Entrade plea within a week. Clark was also advised of the reasons which required: (1) BNL indictment by the end of February, 1990; and (2) receipt of Tezeller cooperation through an Entrade plea agreement prior to indictment. Clark instructed me not to call defense counsel with Clark's new proposals until he briefed Richard and notified me of Richard's decision by 2/2/90.

When no such DOJ approval was forthcoming on 2/2/90, I called Clark on 2/5/90 at which time he claimed to be undergoing surgery that afternoon but promised to call me on 2/6/90. I again reiterated the urgent need for a prompt DOJ decision. After receiving no such call from Clark on 2/6/90, I called his office and was told he was on travel status through 2/10/90 with no number or location available.

After checking with you, I called Mark Richard's office and was told he was not available until 2/11/90. Although I left a request for Richard to return my call, he has not done so.

Finally, after continuing to leave repeated messages for Clark and to make inquiries at the DOJ Fraud Section regarding Clark's whereabouts, Fraud Section Chief Larry Urgenson called me today. Urgenson said that Richard had received no input from Clark or DOJ Fraud because Clark had not briefed Urgenson to the extent necessary for such input, nor had he mentioned any urgency relating to the Entrade decision. Urgenson said he would look into the matter over the weekend, but could not even promise us a decision by Monday, 2/12/90, since Clark was attending the Denver seminar.

I again stressed to Urgenson that a Monday decision was imperative because, just as we had told Clark, 2/22/90 is the last date available for possible travel and prior thereto: (1) defense counsel must review DOJ's changes, convey the same to clients in Turkey, await individual and Board of Directors' decisions, and redraft defense/government letter of understanding; (2) the government must again obtain host country clearance through the Department of State which takes 10 working days; and (3) very complex travel arrangements must be made by the AUSA, three agents and two defense counsel.

cc: Gerillyn Brill

GM:aiw



DCA:RGO:WHS:abf
182-

Washington, DC 20520

BY MESSENGER

FEB 9 1990

Mr. Andre Surena
Assistant Legal Adviser
Law Enforcement and Intelligence
Room 5419A
U.S. Department of State
Washington, D.C. 20520

Dear Mr. Surena:

Re: United States v. Christopher P. Drogoul,
et. al (N.D. GA.)-Iraqi Cooperation

This office has read the proposed memorandum from Alan C. Raul, General Counsel, United States Department of Agriculture, to Abraham D. Sofaer and Robert S. Ross, dated February 2, 1990, regarding efforts to seek the cooperation of the Government of Iraq in the Banca Nazionale del Lavoro matter.

We endorse the memorandum recommendation of a demarche to the Government of Iraq. We believe that the interests of the United States Department of Justice would be better served if the issuance of additional export credits to Iraq is conditioned upon Iraq's complete cooperation with the United States Government in the ongoing Department of Justice investigation in Atlanta. The Office of the United States Attorney for the Northern District of Georgia is in accord. We urge that this matter be resolved as soon as possible.

Thank you for your consideration and attention to this matter.

Sincerely,

Drew C. Arena
Director
Office of International Affairs
Criminal Division

cc: Alan C. Raul, Esq.
General Counsel
United States Department
of Agriculture

001869

HOWELL HEPLIN ALABAMA
 TOM HANSEN IOWA
 ERIC COMBES NORTH CAROLINA
 WYCHE FOWLER JR. GEORGIA
 THOMAS A. BACCHLE
 SOUTH CAROLINA
 RALPH BANCUS MONTANA
 ROBERT GIBNEY MINNESOTA

ROBERT BOLE KANSAS
 JESSE HELMS NORTH CAROLINA
 THOMAS COCHRAN MISSISSIPPI
 RUBY ROSENTHAL MINNESOTA
 RICHARD MCDONNELL KENTUCKY
 CHRISTOPHER S. "TUT" BOND
 MISSOURI
 PETER WILSON CALIFORNIA
 BLAKE BORTON WASHINGTON

United States Senate

COMMITTEE ON
 AGRICULTURE, NUTRITION, AND FORESTRY
 WASHINGTON, DC 20510-8000

February 12, 1990

The Honorable Clayton Yeutter, Secretary
 United States Department of Agriculture
 14th and Independence Ave., N.W.
 Washington, D.C. 20250

Dear Mr. Secretary:

For some months Senator Lugar and I and Agriculture Committee staff have been in communication with the Department of Agriculture concerning the activities of Banca Nazionale del Lavoro, an Atlanta, GA, branch bank of an Italian bank.

We have held several briefings with Department of Agriculture officials concerning this bank's activities. At our briefing on December 4, 1989, the Department told Committee staff that its investigation had not uncovered any evidence of sales of commodities under this program being misused by Iraq. However, there appears to be evidence of bank fraud and the mishandling of accounts covered by Commodity Credit Corporation credit guarantees by the Atlanta branch bank.

Specifically, we have requested to be kept informed of-

(1) the status of outstanding debt of Iraq that was guaranteed by the Commodity Credit Corporation;

(2) the status of your ongoing investigation into Banca Nazionale del Lavoro's use of the credit guarantee program and whether that investigation uncovers evidence of misuse of that program by Banca Nazionale del Lavoro;

(3) the allocation of additional amounts of export credit guarantees to Iraq; and

(4) any other information that might be relevant concerning the misuse of this program and the possibility of default by Iraq on these outstanding loan obligations.

Despite our requests, the Department failed to notify us in advance of the \$500,000,000 allocation that was granted to Iraq earlier late last year. More recently, we discovered through our own inquiries to the Department that the

001870

Secretary Yeutter

2

Commodity Credit Corporation had received notices that Iraq was late on payment of several loans that are covered by CCC guarantees and had stopped further use of Iraq's credit line.

I am disturbed that despite repeated requests, the Department has not kept us promptly informed of all developments in this case. Almost all information that we have obtained has been the result of our own specific inquiries to the Department. I am also disturbed by rumors that foreign policy pressures have encouraged the Department to give Iraq special treatment in this case.

As events unfold, it is increasingly important that the Committee be continually informed as to the status of the Department's investigation into Banca Nazionale del Lavoro.

Please submit a report to the Committee on this entire controversy by February 20. Specifically, I request that you provide us with information as to the outstanding debt obligation evidenced by loans negotiated through Banca Nazionale del Lavoro and by debts of Iraq that are covered by CCC export credit guarantees. I also request an in-depth report on the investigation being conducted by the Department and the status of the Justice Department investigation.

Quite frankly, the advent of this case has caused me to become more concerned about the potential liability to the U.S. Treasury evidenced by credit guarantees issued by the Commodity Credit Corporation. The export credit guarantee program seems to be concentrated in a few countries, many of which may be poor credit risks. The concentration of our limited resources in this program may prevent USDA from meeting new market opportunities in credit worthy countries in Eastern Europe and the Soviet Union without new guarantee authority.

I look forward to your prompt response to our inquiry.

Sincerely,


PATRICK LEAHY
Chairman



322/ John -
 THE DEPUTY SECRETARY OF THE TREASURY
 WASHINGTON

February 13, 1990 7/15/90
 I will be happy to go through my reasons for wanting my memo of 1/20/90 to meet in your office to do so. David

MEMORANDUM FOR DAVID C. MULFORD
 UNDER SECRETARY (INTERNATIONAL FINANCE)
 FROM: JOHN E. ROBSON
 SUBJECT: CCC Credit Guarantees for Iraq

Your "Memorandum for the File" of January 30, 1990, comes nearly three months after the November 8 MAC deputies meeting approved CCC credit guarantees for Iraq. Since you state you chose not to participate in the matter, it is not surprising that the memo does not reflect a complete understanding of the process and the considerations addressed in this complicated issue. In particular, I wanted to note the steps taken by Treasury officials and others to ensure that all available information was carefully considered when it was necessary last November to make a decision on whether to proceed with a FY 1990 CCC program for Iraq.

First, it should be noted that, at an early stage, Treasury and Federal Reserve staffers raised questions concerning credits for Iraq during routine MAC meetings, following disclosure in the press of the developing scandal at Banca Nazionale del Lavoro in Atlanta. We undertook through our own attorneys to check directly on information that was being developed (and that could be shared) by the United States Attorney's Office in Atlanta, and we brought that information to the attention of the MAC. When an initial MAC vote was taken at the staff level in October, Treasury and Fed staffers--far from acquiescing in maintenance of the program on the same basis as before--voted against the commitment to Iraq but were in the minority.

Following further consideration of the BNL situation by USDA, a deputies' meeting involving high-level officials of all MAC agencies, plus OMB and the White House, was held to consider the CCC credits for Iraq. Prior to that meeting, Treasury and certain other agency attorneys met with USDA attorneys to obtain a first-hand report on CCC-related concerns arising out of the U.S. Attorney's investigation into BNL. This information was considered carefully in our preparations for the deputies' meeting, which took place on November 8. As chair of that lengthy meeting, I elicited the views of each agency as to the appropriateness of proceeding with a program for Iraq. At that time there was no available evidence linking Iraqi officials to wrongdoing by BNL. However, it was acknowledged that it was not possible to predict, on the information then known by the MAC, what might eventually emerge from the BNL investigations to establish such a link.

Despite the incompleteness of information, we did not have the luxury of postponing or avoiding a decision. Both USDA and the State Department went on the written record to recommend that a decision to grant the credit guarantees be taken, for both vital commercial agricultural reasons and "overwhelming" foreign policy considerations. At the insistence of Treasury and other agencies, it was agreed that a number of safeguards would be taken to minimize, insofar as possible, any adverse impact from possible future revelations in the ongoing ENL investigation which might implicate Iraq. These included a commitment from USDA for continued monitoring of the Iraq program and, prior to commitment of a second tranche to the program, a written report to the NAC detailing recent developments.

Since that time, Treasury has been following both the U.S. Attorney's investigation in Atlanta (while recognizing that the ongoing grand-jury proceedings limit the information that we can be furnished) and also the separate investigation USDA undertook on its own initiative concerning one of the exporters with which Iraq has dealt. To date, neither investigation has resulted in evidence that establishes Iraqi participation in illegal or inappropriate activities.

All members of the NAC at the November meeting recognized that a decision had to be made on the Iraq program with less than the full information which would be available after the U.S. attorney concluded its investigation--an event that may still be many months away. Most agencies--and this certainly includes the Treasury Department--were not willing merely to reopen the program "on the same basis as before." Instead, I believe the record shows that we took all of the steps reasonably available to us to ensure that the CCC program had not been tainted by Iraqi miscreancy based on anything revealed to date by the ENL investigation. We also attempted to ensure that it would be possible to terminate the program immediately if evidence of Iraq wrongdoing came to light.

So the decision came down to either stopping the CCC program at that point based on the possibility that Iraqi complicity in illegal activities might be revealed at some future date but without any evidence that such Iraqi involvement had occurred or was probable, or authorizing the program with feasible monitoring safeguards based on convincing foreign policy and U.S. agricultural objectives. There were no dissents to proceeding on this basis recorded at the NAC deputies' meeting. Under the circumstances, I believe this was a conscientiously reached and appropriate decision, although admittedly not one free from risk.

If there are facts known to you which would introduce concrete evidence that was not available for the KNC's past deliberations, I invite your immediate response. All involved in the decision making process are most anxious that all relevant information be considered.

United States Department of State

Washington, D.C. 20520

February 14, 1990

MEMORANDUM FOR ALLAN CHARLES RAUL
GENERAL COUNSEL
DEPARTMENT OF AGRICULTURE

FROM: Deputy Legal Adviser

SUBJECT: Seeking Iraq's Cooperation Regarding Certain Allegations

In response to your memorandum of February 13, 1990 to Judge Sofaer, this is to confirm the State Department's concurrence in an approach to appropriate officials of the Government of Iraq for cooperation in connection with the GSM export credit guarantee program. As we discussed, in view of prior Iraqi pledges of cooperation, we believe the questions should be as specific as possible. We understand that the Department of Justice (OIA) will, in consultation with the US Attorney, prepare a first draft of such a request and circulate it for clearance.

cc: Robin Ross
Boylen Gray
Edith E. Holliday
Robert G. Danus

*cc: Archibald
Mensch
Richman*

F41



United States Attorney
Northern District of Georgia

Suite 1800 Richard Russell Building
75 Spring Street, S.W.
Atlanta, Georgia 30335

Telephone: (404) 331-4954

February 20, 1990

Mr. Drew Arena
Director of Criminal Division
Office of International Affairs
U.S. Department of Justice
1400 New York Avenue, N.W.
Room 5100
Bond Building
Washington, DC 20530

Re: Iraqi Cooperation in BNL Criminal Investigation

Dear Drew:

I am in receipt of a copy of the February 14, 1990 memorandum for Allan Raul, General Counsel, USDA, from Alan J. Krecsko, Deputy Legal Advisor, U.S. Department of State, regarding Iraqi Cooperation. This memorandum appears to reference specific draft questions for the Iraqis to be prepared by your office in consultation with this office and circulated for clearance.

In fact, there is no list of questions, nor have we ever suggested preparing such a list in connection with the BNL criminal investigation. Our request is simply that the Iraqis named in our February 13, 1990 letter to you be made available for interview regarding the BNL matter. Since the Iraqis are most interested in "cooperating" with the United States investigation at this point, we hope that a prompt scheduling of such interviews will pose no problem.

Thank you again for your assistance in this matter.

Sincerely,

RIMANTAS A. RUKSTALE
UNITED STATES ATTORNEY

GALE MCKENZIE
ASSISTANT UNITED STATES ATTORNEY

GM:aiw

10000003

DATE: February 21, 1990
ATTN: Honorable C. Boyden Gray
Counsel to the President
FAX NO: 456-6279
FROM: Alan Charles Raul
General Counsel
USDA
FAX NO: 447-8666
TELEPHONE NO: 447-3351

There are 8 pages to this document, including the cover sheet. Please call the above telephone number if any of these pages is not received or is illegible.

Thank you.



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

February 21, 1990

MEMORANDUM FOR EDITH E. HOLLIDAY
GENERAL COUNSEL
DEPARTMENT OF THE TREASURY

FROM: Alan Charles Raul *ACR*
General Counsel

SUBJECT: Iraq

Attached for your information is a copy of a letter on Iraq we provided yesterday to Senator Leahy in response to his request. Because of the ongoing investigations, we indicated to him that we would prefer if he not make our letter public.

cc: C. Boyden Gray
Robert G. Damus
Abraham D. Sofaer
Robert S. Ross



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

FEB 20 1990

The Honorable Patrick J. Leahy
Chairman, Committee on Agriculture,
Nutrition and Forestry
United States Senate
Washington, D.C. 20510-6000

Dear Mr. Chairman:

Thank you for your letter of February 12, 1990 expressing your concerns regarding the ongoing investigation of the Atlanta agency of Banca Nazionale del Lavoro (BNL) and the implications of that investigation for the Commodity Credit Corporation (CCC) in connection with guarantees issued under the Export Credit Guarantee Program (GSM-102) with respect to sales of agricultural commodities to Iraq.

We are committed to keeping the Committee fully informed of significant developments in this matter. As you mentioned in your letter, representatives of the Foreign Agricultural Service (FAS) and our Office of the General Counsel briefed Committee staff about the BNL matter on December 4, 1989. In addition, at the request of Committee counsel, we prepared and submitted a detailed report to the Committee shortly thereafter. We have received no response or reaction to that report. Representatives of this Department are, and have been, available to meet with the members of the Committee or Committee staff at any time, and have been instructed to initiate contact with the Committee if the Department learns of any significant developments in that matter.

In your letter you expressed concerns that the Committee had not been informed about CCC's recent actions temporarily suspending the issuance of guarantees under the GSM-102 program for sales to Iraq. Those suspensions did not result from the BNL investigation in Atlanta. They were short-term suspensions, which occur automatically whenever CCC receives a notice of late payment in connection with sales under one of its GSM-102 guarantees. We do not consider such suspensions to be significant reflections of Iraq's or any other entity's reliability for making payments.

RECENT TEMPORARY SUSPENSION OF IRAQ'S LINE OF GSM-102 GUARANTEES

Under GSM-102 regulations, exporters or their assignee banks holding the right to payment under guaranteed foreign bank letters of credit are required to report to CCC when any payments under those letters of credit are delinquent within ten days after the scheduled payment was due. This late notice is not a claim on CCC and does not trigger any obligation for payment, but it simply alerts CCC to the possibility of a claim in the future. CCC program managers then make inquiries with the foreign bank issuing the letter of credit to determine the reason for the late payment. As a matter of prudence and precaution, CCC automatically suspends making further guarantees under the program for that country until the matter is resolved.

This action is viewed by us as a "technical" suspension. Typically, the reason for delinquent payment involves some complication with the transfer of funds among the foreign bank, its correspondent bank in the United States, and the U.S. bank which holds the right to receive payment. Ordinarily, these problems are resolved within a few days, and the line of export credit guarantees for that country is then reinstated.

The recent technical suspensions of Iraq's GSM-102 line of export credit guarantees were not unique. Although the record of foreign banks for making timely payment in connection with sales for which export credit guarantees have been issued has been very good, there have been occasional late payments involving several countries.

The most recent technical suspensions occurred in January of this year. On January 22, CCC was notified by a U.S. bank that Bank Rafidain was late on a letter of credit payment guaranteed under the GSM-102 program, and the line of export credit guarantees for Iraq was placed in temporary suspension. This problem turned out to be, as is usually the case, the result of complications in the funds transfer process. After inquiry by CCC operations personnel, the matter was resolved quickly, payments were made, and the line of export credit guarantees was restored two days later on January 24, when all payments were fully current.

On January 26, CCC received another late notice regarding Bank Rafidain, this one originating from Banca Nazionale del Lavoro. Again, as is CCC's customary practice, the line of export credit guarantees was temporarily placed in suspension. The amount in question was approximately \$225,000. CCC made appropriate inquiry, and again it was determined that the problem involved only bank transfer difficulties. CCC received assurances from Bank Rafidain that it intended to make payment on the letter of credit in question and that, in fact, it had already made efforts to do so. Bank Rafidain also provided CCC with copies of telexes instructing its corresponding banks to effect the funds transfer. The transfers were effected on February 16, and the Iraq line of export credit guarantees was restored that afternoon.

The Honorable Patrick J. Leahy

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Our decision to suspend temporarily the GSM-102 line of export credit guarantees for Iraq under these circumstances does not signal any change in policy towards Iraq, nor does it involve circumstances which should arouse undue concern at this time. Occasional late payments, while never condoned, do occur from time to time in a program as large as GSM-102 but can be, and are being, managed appropriately.

CURRENT IRAQI GSM-102 OBLIGATIONS

In your letter, you also asked for a report on several other issues including the current status of Iraqi obligations under sales with respect to which GSM-102 export credit guarantees have been issued. As you are aware, CCC is required by Congress, under section 1125 of the Food Security Act of 1985, to make available not less than \$5 billion annually in short term export credit guarantees. In consultation with the National Advisory Council on International Monetary and Financial Policies, \$1 billion of GSM-102 guarantees was allocated with respect to sales of agricultural commodities to Iraq in both FY'88 and FY'89. Due in large part to the uncertainty that developed as a result of the BNL investigation, the FY 90 line of export credit guarantees for Iraq was set at a current level of \$500 million.

Iraq has participated in the GSM-102 program since its inception in 1983. Historically Iraq has been exemplary in repaying its GSM-102 obligations; CCC has, to date, never received a claim as a result of a export credit guarantee issued in connection with a sale to Iraq. Because GSM-102 guarantees are issued for letters of credit for which repayment terms are three years or less, the outstanding Iraqi indebtedness under such sales reflects guarantees issued for the most recent three year period, the years in which the Iraqi guaranteed indebtedness has been the largest. As of the most recent accounting, CCC records indicate a total outstanding guaranteed indebtedness, principal and interest, of approximately \$2.189 billion.

During the period 1985-1987, a substantial portion of the letter of credit proceeds resulting from GSM-102 guaranteed sales were assigned by U.S. agricultural exporters to BNL's Atlanta agency which provided the financing. In recent years, the receipt by BNL of such proceeds has been much less significant. Since the initiation of the BNL investigation last fall, no assignments of letter of credit proceeds in connection with Iraqi sales have been made to BNL, and BNL has indicated that it does not intend to receive further assignments of such proceeds.

In September, shortly after the BNL investigation had resulted in wholesale restructuring of its Atlanta operations, CCC met with representatives of BNL's new management and its counsel. At that time, Iraqi obligations with respect to which GSM-102 guarantees had been issued which were held by BNL, totalled approximately \$761 million in principal and interest. Since that time, Iraq has made a number of payments as they have come due, and the current outstanding obligations held by BNL, as of the most recent accounting, totalled approximately \$531.8 million.

The Honorable Patrick J. Leahy

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TIIB BNL INVESTIGATION

You also asked for a report on any investigation conducted by the Department of Agriculture in connection with the BNL affair, as well as a report on the status of the Justice Department investigation in Atlanta.

In August, 1989, the Office of the United States Attorney for the Northern District of Georgia was told that the directors of BNL's Atlanta agency were operating an undisclosed, or "greybook", loan program for Iraq. Sometime later, agents of the Federal Bureau of Investigation served search warrants and seized BNL records. When authorities at BNL's Rome headquarters learned of the problem, the Atlanta directors and employees were dismissed and new management, under the direct control of BNL-Rome, was brought in.

A number of state and federal agencies concerned with banking regulation have participated in the investigation. Investigators from USDA's Office of Inspector General (OIG) became involved when it was learned that a portion of the BNL greybook portfolio consisted of loans made in conjunction with GSM-102 guaranteed export sales. USDA-OIG personnel have been working with the Office of the U.S. Attorney since that time but, to date, have been restricted in the amount of information that they have been able to convey to USDA officials because of confidentiality requirements attendant to the grand jury investigation.

USDA has remained in regular contact with the Office of the U.S. Attorney in Atlanta to monitor the progress of the criminal investigation. While the U.S. Attorney has been unable to divulge specifics about the progress of the case, it is our general understanding that the investigation centers primarily on issues of possible violation of banking regulations and reporting requirements. However, investigators are also looking to determine whether there were inaccuracies in connection with applications made for CCC export credit guarantees. The U.S. Attorney has indicated no definitive timetable for the investigation.

In October, 1989, at the direction of Under Secretary Crowder, representatives of the CCC's Export Operations Division and USDA's Office of the General Counsel travelled to Atlanta to meet with the Assistant United States Attorney in charge of the BNL investigation. They discussed the general background and direction of the investigation and conferred about means of cooperation between USDA and the Office of the United States Attorney.

After discussing the limitations that the grand jury process would place on disclosure of information, we decided to conduct our own administrative investigation, under the authority provided in 7 C.F.R. 1493.14, of GSM-102 guarantees of sales to Iraq with respect to which BNL received assignments of proceeds. In October, after conferring with the Office of the U.S. Attorney to insure that such an administrative investigation would not conflict with grand jury proceedings, attorneys from USDA's Office of the General Counsel returned to Atlanta to inspect BNL's records pertaining to sales to Iraq with respect to which GSM-102 guarantees were issued.

The Honorable Patrick J. Leahy

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Based on that initial review, USDA attorneys subsequently requested access, again pursuant to our regulatory authority, to inspect exporter records of certain agricultural product sales to Iraq that had been financed by BNL with the assistance of GSM-102 guarantees. Due to circumstances surrounding the criminal investigation, USDA review could not be completed until the end of December, and several additional weeks were required to organize and analyze the information obtained. A draft report of the results of that investigation was just recently completed and has been provided to CCC and FAS officials.

Due the pendency of grand jury proceedings in Atlanta and the possibility that the individuals and transactions discussed in that report could possibly be subjects of the criminal investigation, we are carefully controlling the circulation of the report at this time. However, the USDA attorneys that have conducted our administrative investigation would be available to meet with you and other members of the Committee, or with members of your staff, to discuss the report. Such a briefing obviously should be conducted in a manner that respects the delicate situation surrounding the grand jury proceedings in Atlanta.

Finally, the pendency of the criminal investigation in Atlanta has not prevented us from making adjustments in management procedures that will further protect the integrity and operations of the export credit guarantee program. As a result of information gleaned from our investigation of the BNL matter, as well as in response to recent audits of the program conducted by USDA's Office of Inspector General, FAS has made a number of such changes. Several proposed modifications in GSM-102 regulations have recently been submitted to the Office of Management and Budget and will soon be published for public comment. Perhaps the most significant change is the recent institution, at the direction of Undersecretary Crowder, of a comprehensive system of price review for sales with respect to which GSM-102 guarantees are made.

At this juncture, we do not know whether the BNL investigation in Atlanta will result in criminal prosecutions involving violations of the GSM-102 program. We are monitoring the situation carefully, and have the assurance of the Assistant U.S. Attorney in charge of the case that her office will ultimately provide USDA and CCC with access to any additional information of relevance to us.

OTHER ISSUES

You mentioned that there were "rumors" that foreign policy pressures have encouraged the Department to give Iraq special treatment in this case. To the contrary, the extension of GSM-102 guarantees in connection with sales to Iraq have recently been subject to special scrutiny because of the BNL investigation. Our current FY90 line of GSM-102 guarantees for Iraq is only half of Iraq's original request and about half the size of such lines of GSM-102 guarantees which have been made available to Iraq for the past two years. The decision to limit our initial commitment for FY90 reflects a prudent "go-slow" approach under the present circumstances.

The Honorable Patrick J. Leahy

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Second, we do not believe there is a need at this time for additional authority for our export credit guarantee programs. As you are no doubt aware, current law dictates that CCC make available "no less" than \$5 billion in export credit guarantees annually and clearly permits the Department to extend greater amounts if circumstances so justify. CCC has recently begun to develop a new and more sophisticated program for country risk assessment which will better aid program managers in determining whether various lines of GSM-102 guarantees should continue to be maintained at current levels or should be adjusted (upward or downward). The flexibility on funding levels in current law, along with improved risk assessment techniques, should give us adequate tools to meet new market opportunities for U.S. agricultural exports, including any opportunities which may arise in Eastern Europe or the Soviet Union.

Sincerely,

A handwritten signature in dark ink, appearing to read "Clayton Yeutter", written over a horizontal line.

Clayton Yeutter
Secretary

cc: The Honorable Richard G. Lugar

PREPARATION FOR THE 1990 FARM BILL

HEARINGS

BEFORE THE

**COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY****UNITED STATES SENATE**

ONE HUNDRED FIRST CONGRESS

FIRST AND SECOND SESSIONS

ON

REFORM OF PUBLIC LAW 480—FOOD FOR PEACE; IMPACT OF AGRICULTURE ON GROUND WATER: OPPORTUNITY FOR ACTION; ADMINISTRATION VIEWS; TRADE; AND TESTIMONY FOR THE 1990 FARM BILL

NOVEMBER 7, 1989; JANUARY 25, FEBRUARY 7,
FEBRUARY 21, AND MARCH 21, 1990



PART VII

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry



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Dr. CROWDER. No. It is a larger number than that. Iraq's outstanding line right now is about \$2.1 billion.

The CHAIRMAN. No, no. I am talking about loans to the bank.

Dr. CROWDER. Banca Nazionale del Lavoro?

The CHAIRMAN. Yes, the Banca Nazionale del Lavoro. Is that about \$700 million?

Dr. CROWDER. It is about \$530 million right now. It is coming down, and I think it is about \$530 million as of last Friday or today.

The CHAIRMAN. And overall with Iraq, how much have we guaranteed?

Dr. CROWDER. About \$2.1 to \$2.2 billion.

The CHAIRMAN. I just want to make sure that we are not getting caught in some kind of a squeeze. We get the Office of Management and Budget complaining about unfunded liabilities on the one hand. I assume that you are getting some pressure, either from the State Department or elsewhere, within the administration to loan money to Iraq? Or is this just an internal decision made simply by the Department of Agriculture?

Dr. CROWDER. Let me say a couple of things to put things in perspective here. First, as I indicated in my testimony, we are mandated by the Food Security Act of 1985 to allocate up to \$5 billion, not up to, a minimum of \$5 billion for the purpose of enhancing exports. So we start with—

The CHAIRMAN. What do you mean "up to a minimum"? How do you go up to a minimum?

Dr. CROWDER. I misspoke when I said "up to."

The CHAIRMAN. OK.

Dr. CROWDER. It is a minimum of \$5 billion. So we start with that premise. With respect to Iraq or any other country, the review process is that we make proposals and then it goes through an interagency process, the National Advisory Committee on International Monetary Funding and so forth. So it is approved there. So we do not make a unilateral decision. We make recommendations in terms of what should be funded, and then we sent it though the NAC process for approval. We are not getting undue pressure from anyone on either side, either for Iraq or for anyone else at this time. If we did not agree with it, we would not recommend it. If we thought it was appropriate, we would recommend it.

The CHAIRMAN. Well, let me ask you about that because as I understand it, the Export-Import Bank does not consider Iraq a very good credit risk. I guess they provide Iraq loans for a year, only for a 1 year period. Through CCC, they get 3 year loan guarantees. Is there a different criteria used for CCC selection than for Ex-Im Bank?

Dr. CROWDER. Well, I think that we do have criteria. I am not completely familiar with the Export-Import Bank, but first of all, as I indicated in the opening comments, the \$5 billion is to be allocated to those countries who are having difficulty or could not get it some other way, or we could not export the items without the credit. So there is some basic additional risk involved to start with to these items. We do prepare assessments of the countries economic and political risk. We do reviews of the banks financial condi-

[REDACTED]

National Advisory Council
Alternates Meeting
Minutes
Meeting 90-1
February 22, 1990

Acting Assistant Secretary John Niehuss, Treasury Department
Edith Holiday, General Counsel

[REDACTED]

Deputy Under Secretary Ann Veneman, U.S. Department of "
Agriculture
Alan Raul, General Counsel

[REDACTED]

[REDACTED] Office of Management and Budget

[REDACTED] Department of State

[REDACTED]

[REDACTED] Federal Reserve

[REDACTED]

Arthur Pilzer, Vice President, African and Middle Eastern
Division, Export-Import Bank

[REDACTED]

[REDACTED] Department of Commerce

[REDACTED]

[REDACTED] Agency
for International Development

[REDACTED] Department of Justice

[REDACTED]

DECLASSIFIED

Authority: MALP/2

Date: 12/31/92

[REDACTED]

Treasury [redacted] opened the meeting by noting that it was being held primarily for informational purposes. He recalled that at the November 1989 NAC Deputies meeting on the CCC's GSM-102 program for Iraq, it had been agreed that USDA would return to the NAC with an interim report on the status of the program before releasing the second tranche of guarantees.

Deputy Under Secretary Veneman then outlined the current status of the FY 1990 program for Iraq. She stated that out of the \$500 million in guarantee authority allocated for Iraq in the first tranche, approximately \$484 million had been committed and \$368 million had been registered. She also noted that both the Office of the General Counsel and the Inspector General of USDA had been involved in the investigation, but nothing had yet been found to demonstrate wrong-doing on the part of the Iraqis. She added that the Iraqi GSM-102 program had been suspended twice in 1990. These suspensions were the result, however, of apparent technical problems involving transfers of payments and the program was currently functioning normally.

Regarding the release of the second tranche, Deputy Under Secretary Veneman said that a request had been received from Iraq, but any recommendation was being withheld pending completion of a review of the situation within USDA. She stated that if the results of this review were favorable, USDA would return to the NAC for its advice before proceeding with any further guarantees for Iraq.

In response to a question from the Federal Reserve representative, [redacted] on the nature of the two suspensions, [redacted] stated that they were of a technical nature, having to do with the interbank funds transfer system.

In response to a question from the State representative, [redacted] Deputy Under Secretary Veneman said that the in-house review of the Iraqi program would take from one to four weeks. She noted that USDA was already receiving pressure from both the Iraqis and U.S. interests to release the second tranche.

Federal Reserve
[redacted] then asked, if further credits were warranted, if it would be possible to provide such credit in two additional tranches rather than providing the full \$500 million as a second tranche. Deputy Under Secretary Veneman responded that there were a variety of ways to proceed if it was decided that further guarantees for Iraq were warranted.

State representative
Replying to a further question from [redacted] Deputy Under Secretary Veneman said that \$500 million was still available in

[redacted]

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the FY 1990 program for further allocation to Iraq. In answer to a question from Mr. Pitzer, Agriculture stated that Iraq had originally requested a further \$573 million in guarantees but that this had been reduced to \$500 million.

In response to a question from Federal Reserve concerning Congressional inquiries, Deputy Under Secretary Veneman stated that a newspaper article intimating that the CCC guarantee program for Iraq had been terminated had prompted a letter of concern and inquiry from a Congressional committee. She added that USDA had responded to that letter by explaining that the program was merely temporarily suspended and thus satisfied the committee that appropriate action had been taken. Agriculture added that the GAO had investigated the CCC guarantee program and, as it had reported to Congress, had found no improprieties in the operation of the CCC program for Iraq.

Treasury suggested that the group discuss the ongoing Banca Nazionale del Lavoro (BNL) investigation in Atlanta and its implications for the CCC program for Iraq.

The Department of Agriculture General Counsel, Mr. Raul, said that USDA's Office of General Counsel had initiated an investigation under its regulatory authority -- not under the grand jury's criminal authority. He stated that the General Counsel's office had also consulted with the USDA's Office of Inspector General, which had said that it had found no reason to suspend the GSM-102 program for Iraq.

Expanding on Mr. Raul's comments, Agriculture noted that USDA was involved in two separate investigations. The General Counsel's office, having the duty to advise USDA policy makers, had used its right under current CCC regulations to look at documents associated with the GSM program for Iraq. This investigation was distinct from that of the Inspector General's office, which was working on any possible criminal violations in conjunction with the U.S. Attorney's office in Atlanta.

Agriculture stated that his examination of a certain bank and exporter's documents revealed prices, with respect to certain commodity shipments, that were out of line with what would reasonably be expected. Specifically, the approximate profit margins exceeded those that a middleman trader would ordinarily receive -- \$15 to \$40/ton, as opposed to \$5-\$6/ton. He added that some of these apparently excessive margin spreads could be explained by market forces but others would require explanations from Iraqi officials. He said that the General Counsel's office

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was formulating questions for Iraqi officials regarding specific transactions. He also noted that his office would have to meet with Department of Justice officials to make sure that its investigation did not interfere with the U.S. Attorney's criminal investigation in Atlanta. Then USDA would consult with the State Department regarding the best method of approaching the Government of Iraq.

Deputy Under Secretary Veneman stated that USDA had initiated a program under which, on a daily basis, USDA employees checked prices on guaranteed commodity shipments and "flagged" them if they appeared out of line with market prices.

Responding to a question from ^{Treasury} [redacted] ^{Agriculture} [redacted] on after sales service requirements, [redacted] stated that the investigation had thus far failed to identify a specific instance in which an exporter had provided after sales service -- although reports had been received that Iraq had pressured several to do so. He also said that the CCC had issued a notice to GSM exporters stating that it would not tolerate the financing of after sales service contracts under any of its guarantee programs.

In response to a further question, ^{Agriculture} [redacted] said that an exporter had brought to the attention of CCC officials proposed contract language by Iraqi officials that the exporter pay Iraq a percentage of the value of a shipment in hard currency as a stamp tax. The CCC's position was that the amount paid for such a tax would have to be netted out of the value of the shipment to be covered under the guarantee program. He also stated that the matter had been brought to the attention of the Iraqis, with the request that they cease requiring exporters to assume such taxes.

^{Agriculture} Treasury General Counsel Holiday asked if USDA had determined what questions it wished to put to the Iraqi Government. [redacted] replied that he had drafted proposed questions but had not yet sat down with his Department of Justice counterpart to discuss the matter.

The Justice Department representative, [redacted] said that he hoped to start a review of the case soon, in order to identify what had to be done to prove complicity, or lack thereof, on the part of Iraqi officials. He said that he preferred to have a face-to-face confrontation with selected Iraqi officials and that he hoped to have, by the next week, a timetable for addressing the issues. Mr. Raul asked ^{Justice} [redacted] if his investigation had uncovered any evidence that would lead the Department of Justice to request a termination, suspension,

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or delay in the CCC program for Iraq. ^{Justice} [redacted] replied that he would rather answer that question during the next week, after he had spoken with the U.S. Attorney.

^{Agriculture} [redacted] said that there were two issues being addressed: possible banking fraud and violations of CCC regulations. He noted that the Department of Justice was focusing on the fraud investigation and complicity in one did not necessarily imply complicity in the other.

Mr. Raul said that even if it were determined that complicity on the part of Iraqi officials existed, it would still have to be ascertained whether such instances were indicative of an isolated, or system-wide, problem and who, at what level, was involved. Furthermore, he noted that: Iraq was current on all its CCC-guaranteed obligations; there were no current pricing problems; there was no evidence that non-program commodities were shipped to, or diverted from, Iraq; BNL no longer participated in CCC programs; and, finally, Iraq had given assurances of full cooperation with the investigation -- although they had not yet been tested. He also noted, as an aside, that BNL was an assignee, not a guaranteed bank.

The OMB representative, [redacted] questioned whether one could expect to find documentary evidence of exports of non-eligible or diverted commodities if an exporter was engaged in fraud. ^{Agriculture} [redacted] stated that although USDA did not expect to find a "smoking gun", its investigators had found complete, diverse, and apparently legitimate documentation. He said that they had examined dozens of trades by the principal exporter under investigation and could trace all portions of all trades but one. In response to a further question from Mr. Speckhard, [redacted] stated that the last occurrence of extraordinary price margins uncovered to that point had been in late 1987.

^{Treasury} [redacted] ^{Agriculture} asked whether USDA would terminate its program if it were proven that an Iraqi official received a kickback. [redacted] responded that kickbacks were not the only possible explanation for wide price margins. He noted that in some cases the excess size of the margin corresponded to the cost of freight. He hypothesized that Iraq might have been having its freight costs guaranteed, which would be in violation of CCC regulations and a misuse of the program. He said that questions with respect to those cases would have to be directed to the Iraqis.

^{Federal Reserve, Agriculture} In response to a question from [redacted], [redacted] stated that USDA had not identified any cases of extraordinary

- 5 -

price margins after 1987. He theorized that this was because the particular exporter that the investigation had focused on did little CCC business after 1987.

Mr. Raul said that BNL currently held \$531 million in Iraqi obligations, down from a high of \$670 million as a result of routine repayments. In response to a question, [redacted] said that currently Iraq had \$2.2 billion in outstanding CCC-guaranteed obligations, and noted that this amount would rise during the next two years.

The Commerce Department representative, [redacted] asked when the remaining questions regarding possible Iraqi improprieties would be answered. [redacted] replied that the questions must first be formulated, then cleared by the Department of Justice and the State Department. Then, he said, there was also the problem of how to present the questions to the Iraqis, e.g., through written letters or a direct meeting, and USDA would consult with State to determine the optimal approach. Finally, he noted that there was bound to be a time lag before the Iraqis responded.

In response to a question from [redacted] regarding possible problems with high margins in any other countries, [redacted] said that the focus of the investigation was on Iraq, but two small incidents in other countries were also under investigation. He added that all the problems uncovered were primarily associated with one exporter, who did 90 percent of his business in one commodity, exporting to Iraq using BNL financing.

In response to a question from [redacted] Deputy Under Secretary Veneman stated that her agency's new price review procedure covered all transactions to all countries utilizing CCC guarantees. [redacted] noted that the pricing review had to encompass over 70 commodities with different grades -- a difficult task.

In response to a question from [redacted] [redacted] stated that it was too early to say if BNL would ever again be an active participant in the CCC's guarantee programs. Counsel for BNL had told USDA that BNL is not interested, at this time, in doing any further GSM funding. Moreover, BNL has not taken any additional assignments since the Atlanta investigation began. He gave assurances that the NAC would be notified if such a request were made.

Treasury General Counsel Holiday suggested that the group discuss the best manner in which to proceed with the possible

- 6 -

release of the second tranche. Mr. Raul noted that from the Iraqis had only just been received, and so waiting for the completion of USDA's in-house review. Under Secretary Veneman asserted that this review would take a few weeks, or possibly longer, depending on the next wave of revelations.

In response to a question from Treasury Acting Secretary Niehuss, Deputy Under Secretary Veneman said in light of the uncertainties surrounding the criminal investigation, maintaining a flexible attitude with the timing of any announcement dealing with the resumption, of the second tranche. Mr. Niehuss suggested for the Iraqi answers to the specific questions regarding USDA's investigation before settling on a course of

Mr. Raul said that he had started the process of asking the questions. He added that he hoped to confer with the departments of Justice and State, determine the best way to proceed, and put the questions to the Iraqis soon. He could not say if any answers would be received before USDA's in-house recommendations came out.

Agriculture
[redacted] stated that the Secretary of State had this issue with the Iraqi Foreign Minister in October and had pledged his government's full cooperation.

Agriculture
[redacted] said that indictments had originally been expected in early November, but, when it became apparent that the grand jury process would be drawn out, USDA had proceeded with the first tranche. He noted that USDA's administrative investigation was subordinate to the criminal investigation.

Federal Reserve
[redacted] expressed appreciation for the USF report to the NAC on the Iraq/CCC issue. He quoted the Summary of Agreed Points from the November 8, 1989 Meeting, which said, "Prior to commitment of a second tranche under the Iraq program the Department of Agriculture submitted a written report to the NAC..." and requested that the report be submitted prior to any USDA commitment to Iraq regarding the second tranche CCC credit. [redacted] also noted that the issue of creditworthiness would need to be revisited at the time of consideration of a second tranche request. In this regard he cited a report from Rome that Italy's export credit agency had recently placed Iraq off cover. Mr. Raul acknowledged that the plans to do so prior to making any commitments.

Federal Reserve

[REDACTED]

Agriculture

General Counsel Holiday asked if there were any further comments. Mr. Raul said that the first tranche was almost completely exhausted, as \$360 million in guarantees had already been registered. [REDACTED] noted that the first tranche had already been fully allocated in all the major commodity lines. He added that Iraq had put out wheat tenders, for April delivery, but there was no guarantee authority left for U.S. wheat exports to Iraq.

General Counsel Holiday asked if USDA could, if needed, terminate whatever was left of the first tranche. Under Secretary Veneman said that the question had been raised, but there was no evidence to justify such an action. Mr. Raul added that Under Secretary Crowder had consulted with USDA's Inspector General at each step leading to the announcement of the tranche.

State [REDACTED] Agriculture [REDACTED] asked when a grand jury indictment might be expected. [REDACTED] replied that a recent call to the U.S. Attorney in Atlanta had left him with the impression that indictments were imminent.

Mr. Raul summed up by stating that he found the meeting useful insofar as it had enabled (1) USDA to keep all agencies briefed on the status of both the BWL investigation and the CCC program for Iraq, as was agreed at the November 1989 Deputies meeting, and (2) establishment of a procedure for NAC review of a second tranche, if USDA felt another tranche was warranted.

General Counsel Holiday thanked the participants and noted that there seemed to be a consensus that prior to approval of any second tranche, the issue should be revisited at a senior level meeting of the NAC.

DECLASSIFIED

Authority: [REDACTED]

Date: 12/24/92

[REDACTED]

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

MEMORANDUM FOR DEPUTY SECRETARY ROBSON

FROM: John M. Niehuss
Acting Assistant Secretary
International Affairs

SUBJECT: NAC Alternates Meeting on CCC/Iraq

As you requested, we convened a meeting of NAC Alternates to consider USDA's report on their review of a particular exporter implicated in the B1 related matters.

At the meeting on February 22, USDA confirmed that it has received a request from the Government of Iraq for the second tranche of FY 1990 credit guarantees. USDA is reviewing the request carefully, and when/if the review is complete, it will present that recommendation to the NAC for consideration. USDA expects a 1-4 week timeframe for its review.

USDA reported that its own investigation has found evidence that one exporter had unusually large margins on some commodities sold to Iraq. They had not been able to reach conclusions as to the use of those margins.

USDA indicated, in response to a question from the sales service, that another exporter had reported an Iraqi request that the exporter pay a two percent fee on its exports to Iraq. Under CCC regulations, any additional payment must be deducted from the value of the sale in calculating the guarantee value. CCC would be guaranteeing more than the legal value of the export. USDA has made clear to both the exporter and the Iraqis that such a stamp tax is not acceptable under the CCC program.

USDA is consulting with the Department of Justice regarding developing questions to put to the Iraqis concerning their possible involvement, and later will work with the State Department approach to the GOI. USDA stressed that the investigation is independent from the Department of Justice's investigation, which is broader in scope.

- 2 -

Agencies were generally satisfied with the actions being taken by USDA on price checking and after sales service. There was no feeling that evidence had been developed to require the suspension of the current tranche. Agencies are prepared to wait to schedule another MAC meeting until USDA comes forward with a recommendation on the issue of the second tranche.

In accordance with the consensus reached, we intend to await USDA's recommendation on the second tranche, unless other developments occur that require a change of course. In addition, we will cooperate as necessary with USDA and other agencies on an approach to Iraq.

Attachment

001579



United States
Department of
Agriculture

Foreign
Agricultural
Service

Washington, D. C.
20250

FEB 23 1990

INFORMATIONAL MEMORANDUM FOR UNDER SECRETARY CROWDER

THROUGH: R. E. Anderson, Jr.
AdministratorFROM: F. Paul Dickerson
General Sales Manager
and Associate Administrator

SUBJECT: Iraq GSM-102 - Pros and Cons For the Additional \$500 MI

As requested by Ann Veneman, attached is the paper my staff prepared
pros and cons of announcing additional GSM-102 credit guarantees

Attachment

F00296

FEBRUARY 23, 1990

**Pros and Cons For Announcing Additional Coverage Under
Iraq's GSM-102/103 Export Credit Guarantee Program**

CONFIDENTIAL

ISSUE:

Whether to announce all or part of the \$500 million increase in GSM-102 Credit Guarantee coverage to Iraq previously reviewed by the NAC.

PROS:

- Iraq is a major market for U.S. agricultural products and our largest market for rice. The U.S. will only retain these markets by supporting them under the GSM-102 program for the next few years. Other than rice, the most important commodities are feedgrains, wheat, protein concentrates, wood products and sugar. U.S. suppliers of these commodities would suffer the most and CCC outlays for program commodities may increase if the GSM-102 program ceased.
- Iraq's repayment record, to date, has been exemplary. Since the inception of the program for Iraq, credit guarantees of approximately \$4.2 billion have been issued (of which approximately \$2.0 billion have been repaid) without a single claim against CCC.
- Letters of Credit under the program are opened by Rafadain Bank - the largest bank in the Middle East with estimated assets of \$54 billion.
- Iraq has also become an important market for high value products, e.g., pulses, yeast, dairy products.
- Iraq in the long term is likely to be a major player in the Middle East with oil reserves second only to Saudi Arabia, a good population base, and a strong military. Iraq's ability to pay is high in the long run once they have paid back debts incurred during the Iran-Iraq war.
- Politically, Iraq has strategic importance as a bulwark against Iran and controls a significant amount of the Middle East's oil.
- Not announcing the program will be considered by the Iraqi Government as unwarranted and an affront to their dignity. They might stop paying on their GSM obligations which could result in a large outlay by CCC. Current Iraq GSM obligations are approximately \$2.2 billion.

CONS:

- Iraq's creditworthiness is questionable in the short run, largely because of debts incurred during the 8-year Gulf War with Iran. Iraq owes \$40-50 billion to Western countries and Japan, and an equal amount to Arab States. FAS risk analysis supports a lower program level than we currently have. The higher program level has been based on Iraq's long run ability to pay and high market development potential.
- Iraq, even with recent moves toward privatization, continues to be a hard-line Baath Socialist State with human rights problems. Amnesty International continues to identify Iraq as a gross violator of human rights.

- Possible indictments for violation of CCC regulations grow Banca Nazionale Lavoro (BNL) investigation could have a se the overall GSM-102/103 program. If this occurred there v considerable adverse Congressional reaction and press cove worst case scenario, investigators would find a direct lin Iraqi military expenditures, particularly the Condor Missi
- We can expect strong interagency opposition from NAC agenc particularly the Treasury Department.

DISCUSSION/BACKGROUND:

Importance of Iraq as a Market for U.S. Agricultural Products:

The U.S. Department of Agriculture's GSM-102 credit guarantee is instrumental in establishing a large market for U.S. agricultural products in Iraq, even prior to the re-opening of diplomatic relations. Iraq has been one of the fastest growing of the top 20 U.S. agricultural export markets, currently ranking tenth. In FY 1989, GSM-102 agricultural export credit guarantee sales registrations totaled \$1.05 billion, respectively. This program in combination with the Export Enhancement Program has made the Iraqi market one of the most successful agricultural export success stories of the eighties.

Between 1982 and 1988, Iraq's annual imports of agricultural commodities averaged \$2.39 billion and are estimated at \$2.9 billion for FY 1989. In FY 1982, the year before the first GSM-102 program was announced, agricultural imports from the United States totaled less than \$1 million. In FY 1989, U.S. agricultural exports totaled \$774 million, up from \$174 million in FY 1988, 49 percent from FY 1987, and 473 percent from FY 1982.

Iraq is the largest export market for U.S. rice, with exports valued at \$180 million. Other major commodities exported under GSM-102 in FY 1989 were: wheat/wheat flour, \$173 million; feedgrains, \$69 million; oilseeds and products, \$37 million; feed and other grain products, \$34 million; cotton, \$71 million; and sugar, \$34 million.

Creditworthiness:

While we have been concerned over Iraq's ability to repay its debt, its repayment record with CCC has been historically sound. During the Iraq-Iran war, Iraq's accumulated debt grew by \$26 billion in 1980 with another \$40-\$50 billion to Arab countries. Contrary to accepted international practice, Iraq's basic strategy in handling this debt is to negotiate unilaterally with each lender country and to continue to borrow from countries that agree to provide additional credits. The Government has reiterated several times that paying the United States is high priority. However, this leaves CCC in a vulnerable position with approximately \$1 billion in GSM exposure to Iraq.

GSM-102

-3-

Our concern with Iraq's creditworthiness in the short run is somewhat mitigated by the fact that oil revenues (estimated at \$14 billion in 1989) have been rising. In 1989, the United States imported about \$2 billion of Iraqi oil. Currently Iraq produces its OPEC quota of 3.14 million barrels of oil per day and has the capacity to produce around 5 million barrels per day or nearly double the OPEC quota. In addition, Iraq's war-related expenditures have been reduced, and they have been rebuilding the country's infrastructure. All of these factors combined with rising oil prices should improve Iraq's economic situation. Providing they can overcome their short term difficulties, Iraq has the capacity to service their debt over the longer term.

U.S. Political and Strategic Concerns:

Domestic political concerns about the Iraq GSM-102 program are driven both by concern that no HUD or savings and loan type scandal be permitted within CCC programs, and by linkage of domestic lobbying groups to both human rights groups and Israeli interests. Israel is concerned that Iraq emerged from the Iran-Iraq war with the strongest Arab army - both battle seasoned and technologically advanced - in the region. Currently, there is only a cease fire with Iran, and Iraq is unlikely to cut back its military until after a formal peace treaty is signed with Iran. Iraq is ruled by the Arab Baath Socialist Party and allows only limited democratic expression. During and immediately after the Iran-Iraq war there were also charges that Iraq had used lethal gas weapons, both against Iran and against its own minority Kurdish population. As a result, Congress nearly passed sanctions which would have barred Iraq from participating in the GSM-102/103 credit guarantee program.

In addition, USDA's Inspector General's Office discovered that non-U.S. tobacco had been exported under Iraq's export credit guarantee program. This was followed by the Banca Nazionale del Lavoro affair. All of these events have caused the Iraq program to be scrutinized intensely by Congress and the press.

The BNL investigation continues and there is some indication that there may be at least one U.S. firm charged with violation of CCC regulations. Should a direct link be developed between Iraqi Government Officials or the Government itself, CCC would face severe criticism for continuing the program. Our defense is that program changes have been implemented which should prevent this from occurring again. Iraq compares favorably to other large programs such as Mexico and Algeria as regards to operational problems. That is not to say operational problems don't exist - they do, but no more than with other large programs. We will continue to deal forcefully with the Iraqis to solve operational issues.

FAS:EC:AME:DKunkel:dek:20-Feb-1990:382-9216:[KUNKEL]#



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

February 23, 1992

MEMORANDUM FOR THE SECRETARY

Alan Charles Paul *AP*
General Counsel

End of The Week Report

I. Iraq. On the Iraq GSM matter, we have briefed Advisory Council on International Monetary and Financial Policy developments and the pending investigations. I also accompanied testimony on international programs, where the Iraq situation has now submitted its request for the "second tranche" that we additional \$500 million in export credit guarantees under GSM. We are studying the request in a deliberate manner over the next

On the investigation side, OGC is working with the Department of Justice preparing certain questions to ask the Government of Iraq. It is questioned why Iraq would have paid certain exporters prices above market price levels. We hope to develop the questions and present them expeditiously. However, it is entirely likely that Iraq's response before USDA's recommendation on the second tranche will be negative. Preliminary indications look like Treasury will be adamantly opposed to further guarantees for Iraq, while State will continue to favor

I am also advised that, in the very near future, there will be certain indictments against a number of Iraqi officials on an espionage matter. This may affect the atmosphere surrounding our Iraq GSM program.

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Memorandum for the Secretary
February 23, 1990
Page Two

Source: U.S. O.A

000689

DRAFT/ CG-KJB /3-5-90

IRAQ GSM-102 PROGRAM -- Qs & As

Q. Can you give us a brief history of the GSM-102 program for Iraq?

A. Iraq first began participating in the GSM-102 program in FY 1983. In that first year, CCC announced an available line of export credit guarantees in the amount of \$230 million. The program level increased steadily each year, and by FY 1988, Iraq had become the second largest GSM participant country, exceeded only by Mexico, with a \$1 billion announced line of available credit guarantees. Iraq participated at that same level in FY 1989. Over the years, more than 20 commodity categories have been included in the Iraq program.

Q. Why was such a large GSM program developed with Iraq?

A. The GSM-102 program is operated to provide credit assistance facilities to purchasers which cannot currently purchase U.S. commodities in the cash market, but which can pay on reasonable credit terms, and which present good long-term market development opportunities for the United States. Iraq has been a growing market for U.S. commodities, and has become the United States eighth largest customer for agricultural products, and our largest customer for rice. Over the term of the program, wheat, rice and feedgrains have been our largest exports; in recent years, Iraqi purchases of wood products and cotton have been increasing.

Q. How much has it cost the CCC to extend export credit guarantees to Iraq?

A. To date, there have been no CCC outlays as a result of GSM-102 guaranteed sales to Iraq. Iraq has consistently repaid the loans made under the program, and there have never been any claims filed with CCC. The Iraq GSM-102 program has been very successful. Since 1983, CCC has registered more than \$4.5 billion in sales of agricultural commodities without paying any outlays on claims.

Q. Why, then, was the program reduced in FY 1990 to \$500 million?

A. At the time USDA was deciding on its FY 1990 allocations for the GSM-102 program, it received reports about an investigation by the United States Attorney in Atlanta, Georgia, of allegedly unauthorized loans made to Iraq by the Atlanta branch of an Italian bank, Banca Nazionale del Lavoro (BNL). Upon initial investigation, USDA learned that a large portion of the allegedly unauthorized loans were loans made to purchase U.S. agricultural commodities under the GSM-102 program. Although there was no

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specific evidence of any wrongdoing with respect to the GSM program at that time, USDA decided to reduce its allocation to Iraq to \$500 million while launching its own administrative investigation.

Q. What is the nature of the investigation being conducted in Atlanta?

A. The investigation in Atlanta is being conducted by the Office of the United States Attorney. USDA's understanding is that the investigation is that a grand jury has been convened, and the investigation is proceeding under rules of grand jury secrecy. As a result, USDA has very limited information about the particulars of that inquiry. USDA's understanding is that the investigation centers on unauthorized loans made to Iraq which may not have been reported to federal and state regulators as required by applicable law. Because some of those loans involved sales made under the GSM program, the U.S. Attorney is receiving the assistance of members of USDA's Office of Inspector General. However, those individuals are subject to grand jury secrecy rules and have not, as a result, been in a position to provide information to USDA at the current time.

Q. Does CCC have any financial risk as a result of possible problems at BNL?

A. No. BNL financed Iraqi purchases of U.S. agricultural products, with the loans to be repaid under letters of credit issued by Iraqi banks, principally Bank Rafidain. The risk covered by the GSM guarantees is the repayment by the Iraqi banks. CCC has assumed no risk with respect to Banco Lavoro or any other U.S. financial institution.

Q. Is the ^{dispute} ~~suspension~~ announced today connected with the BNL affair?

A. Not directly. Although USDA is continuing to monitor the investigation in Atlanta, to date USDA has not been informed of any alleged wrongdoing or violations with respect to the GSM program.

However, the initial allegations of lending abuses in Atlanta did lead USDA to initiate its own review of the GSM-102 program in Iraq. In the course of that review, USDA has identified several problem areas, and has a number of questions about past transactions and practices which need to be clarified or corrected before allocating additional amounts of credit guarantees for Iraq program. While USDA does not have evidence of specific program violations with respect to the Iraq program, it has serious concerns about the pricing patterns in some past transactions, purchasing and shipment practices, and requests or requirements for special after-sales services or tax payments.

Q. In light of these uncertainties, why was any line guarantee allocated to Iraq for FY 1990?

A. USDA's administrative review of the Iraq program been initiated last October at the time the decision country allocations for FY 1990 had to be made. At that juncture, USDA had very little information about the the Atlanta investigation. Because of the substantial importance of the Iraqi market to U.S. exporters, and any specific information about possible problems with GSM program, USDA determined it the prudent course to with a \$500 million program which represented half of request, while pursuing its own review of the program

The USDA review, which was conducted by the Foreign Agricultural Service and USDA's Office of the General involved several months work reviewing information from a number of sources. The preliminary results of have only recently been conveyed to USDA policymakers those preliminary results, the decision has been reached ~~suspend the program~~ at this time.

*that
informed
additional
allocation*

Q. How does USDA plan to investigate and clarify the uncovered?

A. USDA has already conveyed its concerns to official Government of Iraq, both in Baghdad and in Washington Consultations to discuss specific problems and issues requested. USDA expects that these consultations will shortly.

Q. Is Iraq cooperating in your investigation?

A. Yes. The Iraqi government has assured USDA of its cooperation and its intent to correct any problems that identified.

Q. Will there be any affect on U.S. exports?

A. U.S. exports to Iraq of agricultural products have heavily on the credit facilities made available under program. As a result, there may be a sharp decline over the period during which the program is suspended regrettable as the United States considers Iraq to be important market, and has traditionally supported through the GSM program. It is USDA's hope that Iraq continue to make cash purchases of U.S. agricultural the interim.

Q. How much does Iraq currently owe for agricultural that have been made in the past with GSM assistance?

about a 20% current cash exposure

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A. Current outstanding Iraqi indebtedness to U.S. financial institutions for which GSM guarantees have been issued is approximately \$2.26 billion in principal and interest.

Q. Does this suspension create any risk to CCC of Iraqi default?

A. Representatives of the Government of Iraq have repeatedly stated that Iraq is committed to fulfilling all of the financial commitments it has made under the GSM program. Iraq's record of repayment over the life of the program has been exemplary. While there is always some risk that the interruption of a program could result in repayment problems, Iraq and the United States share a mutual long-term interest in the continuation of the GSM program and in mutually beneficial trade relations. It is USDA's hope that this interruption of the program will only be temporary, and USDA's expectation that Iraq will continue, as it has in the past, to meet its obligations during this hiatus.

Q. Is this ~~suspension of the GSM program~~ ^{decision} the result of recent revelations concerning alleged Iraqi weapons efforts?

A. No. The ~~suspension~~ decision results from potential program problems identified in USDA's administrative review of the Iraq GSM-102 program, a review that began last October. Clearly, however, recent events do not contribute to the efforts both the United States and Iraq have made in the past to foster improved trade relations.

Q. Has USDA uncovered any misuse of the program to fund military purchases?

A. No. There is absolutely no evidence to date to suggest this. The potential program problems we are looking into are principally of a financial nature.

Q. Will there be additional program allocations for FY 1990 or for FY 1991?

A. This will depend on the results of the consultations that we intend to conduct with Iraq. We will need to be satisfied that there have been no serious program abuses in the past that have jeopardized the integrity of the GSM-102 program; where there have been problems, we will need to work with Iraq to insure that there are safeguards in place to prevent possible abuse of the program.

Q. Is the decision to withhold further allocation related to the current operational suspension?

493632



Foreign
Agricultural
Service

Washington, D.C.
20250

MAR 8 1990

TO: Chris Goldthwait
Assistant Administrator
Export Credits

FROM: Robert McConnell *RM*
Assistant Administrator
International Agricultural Statistics

SUBJECT: Iraq--Financial and Economic Situation

12 PAGES

IAS has updated the economic profile of Iraq in response to recent changes in its economic situation.

Iraq's war with Iran, compounded by the decline in oil prices, forced Iraq to take on extensive overseas borrowing. Total external debt is estimated at \$32.5 billion. An additional \$40-\$50 billion, considered by Iraq as separate "debts in kind", are owed to Arab Gulf states. Most of the major debts have been rescheduled at least once.

Iraq's balance of payments situation remains bleak. Imports have increased significantly to meet the pent-up demand; hard-currency military spending remains unchanged at \$5 billion annually; and new loans have declined dramatically as lending institutions have become wary of Iraq's debt situation. The most significant factor in Iraq's short-term balance of payments situation continues to be the limited increase in oil revenues. The long-term balance of payments situation is primarily dependent on an increase in oil revenues and Iraq's ability to secure new credits.

Two factors are of significant interest to the United States. One is Iraq's attitude of favoring repayment of previous loans to those offering further credits and ignoring repayments to those unwilling to advance new credits. The second factor is the importance of guaranteed credit arrangements in gaining market share. GSN-102 credit guarantees have annually accounted for over 90 percent of total U.S. agricultural exports to Iraq for the past five years. This has allowed the United States to become the largest supplier of agricultural products to Iraq, replacing the EC.

TEIO's Comparative Ranking Model, used for ranking country credit risk, places Iraq in the C category based on a grading system of A to E. A equates to the lowest risk category and E equates to the highest risk category. A grade of C would indicate moderate risk. In addition, a composite country risk grade from subscription sources places Iraq at a D+ indicating high risk. Based on both these quantitative analyses and the following qualitative analysis, it is clear that there is a significant degree of risk involved in granting substantial credit guarantees to Iraq. However, because of Iraq's growing

Report: Part of the report on AG Stats & Economic Conditions

Chris Goldthwait

Page 2

import needs, there is also a tremendous market opportunity for agricultural exports, especially food grains such as wheat and rice. Thus, Iraq is both a high credit risk and a potential for high market return.

Attachments

IRAQ--FINANCIAL AND ECONOMIC SITUATIONBACKGROUND:

Iraq is a major oil producing country which borders six countries: Iran, Turkey, Syria, Jordan, Kuwait and Saudi Arabia. The current population is 18.3 million with a relatively high growth rate of 3.5 percent in 1989. The land area is 434,000 sq. km. or slightly larger than twice the size of Idaho. Other than cultivated areas along the Tigris-Euphrates River, the country consists mainly of desert plains and arid mountains. At least 40 percent of the population resides in or near the capital city of Baghdad.

Overall, 12 percent of the land is arable, 9 percent is meadows and pastures, 3 percent is forest and woodland, 1 percent is permanent crops and the remaining 75 percent is classified as desert. Oil and natural gas are the dominant natural resources, accounting for over 95 percent of Iraq's export revenue. Other major industries include textiles and shoes. Modest levels of agricultural exports include barley, cotton, wool and palm dates.

QUALITATIVE ANALYSIS:

More than one year after an uneasy ceasefire agreement with Iran, Iraq's economic recovery continues to move at an extremely slow pace. The economic impact of the eight-year war was devastating. War-related costs have been estimated at \$100 billion with another \$37 billion estimated for reconstruction costs. To date, Iraq has focused their reconstruction plans on modernizing their military hardware and on repairing oil export facilities. However, the oil revenues needed to finance their reconstruction efforts reached only \$13.4 billion in 1989, approximately one-half the pre-war level of \$26 billion in 1980. *25-26*

Iraq's domestic economy, however, has shown some signs of recovery. Real GDP grew at an annual rate of 10.8 percent in 1989 and 9.9 percent in 1988. This compares with the previous five-year period when real GDP actually declined by an average annual rate of 5.9 percent. Conversely, pent-up demand for consumer goods and limited supplies of basic food commodities have led to a post-war inflation rate of an estimated 30-40 percent. This situation led to widespread civil discontent and the implementation of government-imposed price controls.

Iraq's balance of payments situation shows few signs of encouragement through the short-term. Imports have increased significantly to meet the pent-up demand; hard-currency military spending remains unchanged at \$5 billion annually; and new loans have declined dramatically as lending institutions have become wary of Iraq's debt situation. The most significant factor in Iraq's short-term balance of payments situation continues to be the limited increase in oil revenues. Iraq's production quota within OPEC is 2.92 million barrels a day (b/d). This is well below their expanded capacity of 4.0 million b/d. If Iraq tries to exceed their quota, other OPEC countries *multilateral*

will undoubtedly follow suit and depress oil prices even further, thus limiting any increase in oil revenues. The most likely scenario involving modest increases in both quotas and prices sees Iraq increasing oil revenues by \$1 billion by 1992, well below the amount needed to substantially improve their balance of payments situation.

In the long-term, however, there remains potential for significant improvement in the balance of payments situation due to Iraq's tremendous supply of proven oil reserves. The most recent estimates from the Iraqi Oil Ministry places proven reserves at 100 billion barrels and probable reserves at another 50 billion barrels. This would put Iraq second behind Saudi Arabia in the amount of oil reserves. Given this situation and the projected increases in oil prices over the next five years, Iraq has the potential to reach pre-war levels of \$26 billion in oil revenues by 1994.

The war with Iran, compounded by the decline in oil revenues, forced Iraq to take on extensive overseas borrowing during the past decade. Total external debt increased from \$7.8 billion in 1984 to \$32.5 billion in 1989. This amount does not include an estimated \$40-\$50 billion owed to Arab Gulf states, which Iraq considers as separate "debts in kind". Most of the major debts with western creditor countries have been rescheduled at least once. Further confidential bilateral rescheduling negotiations is expected as Iraq continues to avoid multilateral reschedulings within the Paris Club.

On the political scene, Saddam Hussein and the Baath party continue to consolidate the power they have held for over 20 years. The Baath party seized control in 1968 after a successful coup d'etat and quickly pronounced the principles of socialism, freedom and a Pan-Arabic community. Saddam Hussein ascended to the presidency in 1979 but had long before been recognized as the effective head of state. Despite recent rumors of coup attempts, Hussein remains in firm control. The two major issues facing Hussein are the ceasefire with Iran and economic reconstruction.

EXPORT SITUATION:

Iraq's imports of U.S. agricultural products fell 10 percent in 1989 after two years of dramatic increases in 1988 and 1987. As has been the trend throughout the decade, more than 90 percent of total U.S. agricultural exports to Iraq are directly attributed to the GSM-102 credit guarantee program. Overall, U.S. agricultural exports to Iraq totaled \$726 million in 1989 compared with \$808 million in 1988. This amount ranks them as the 12th largest market for U.S. agricultural products. The two major export commodities remain rice and wheat. Other products include feed grains, soybean oilcake and meal, dairy and poultry, cotton and sugar.

The United States market share of total Iraqi agricultural imports reached 34 percent in 1988 compared with 30 percent in 1987 and 21 percent in 1986. In 1980, U.S. market share was near zero. In 1988 the United States maintained its market share of approximately 80 percent for rice and 24 percent for wheat. The United States also maintained a significant market share for soybean oilcake and meal, dairy and poultry products, corn and sugar in 1988 after significant gains in 1987.

A major consideration with Iraq is their growing dependency on food imports. Iraq has a high population growth rate, very limited supply of arable land, and a low self-sufficiency ratio for food. When compared to other oil-exporting countries, Iraq's cereal imports are 234 kilograms per person compared to 159 in Algeria, 108 in Iran and 6 in Nigeria. This represents a tremendous market for food grain exports. However, an important factor in gaining a market share in Iraq has been the readiness of exporters to offer credit arrangements. The United States has been able to expand their market share because they have continued to offer GSM-102 credit guarantees. All other countries have suspended their one-to-three year credit arrangements and subsequently lost their market share.

FUTURE ABILITY TO PAY:

Despite continued international pressure, Iraq refuses to seek multilateral negotiations through the Paris Club and instead maintains their policy of confidential bilateral negotiations. This strategy allows Iraq to play the creditors off one another, promise "favored creditor" status to creditors providing expanded credits, and effectively use the threat of default to extort new loans. *credit*

Currently, Iraq has approximately \$15 billion in guaranteed trade debt to government credit agencies. Only three of these agencies have essentially maintained their "favored creditor" status and received their payments on schedule: CCC, EX-IM Bank, and the U.K. Export Credit Guarantee Department (ECGD). All other agencies have decided to limit their exposure and, as a result of the Iraqi strategy, experienced almost annual debt reschedulings over recent years including Japan (MITI), France (COFACE), Italy (SACE), West Germany (HERMES), and Australia (EFIC). *credit*

Of all the government credit agencies, CCC is the only one to continue to offer one-to-three year guaranteed credit. All other agencies only offer loans of less than one year and generally on a revolving basis. Some agencies have initiated a policy of linkage that is effectively the Iraqi strategy in reverse. Under this strategy, new credits are linked to partial or complete repayment of accumulated arrears. To date, HERMES of West Germany is the only agency to offer this linkage strategy on one-to-three year loans. Iraq, however, did not accept this arrangement. *credit*

Based on this financial and economic analysis, CCC should recognize the high degree of risk involved in granting substantial credit guarantees to Iraq. Even though CCC maintains its "favored creditor" status, Iraq's recent request to the United Kingdom's ECGD to reschedule their debt is proof that this should not be considered a permanent situation. However, if recent Iraqi actions are used as a guide, any attempt to significantly reduce allocations to Iraq would almost certainly result in reschedulings of past GSM-102 loans. On the other hand, continuation of \$1 billion annual guarantees to Iraq would only serve to increase our current exposure of \$1.8 billion to Iraq. This would leave CCC even more vulnerable in the future if Iraq eventually agrees to multilateral Paris Club negotiations. *credit*

IRAQ: FINANCIAL AND ECONOMIC INDICATORS

CALENDAR YEARS 1984-1990; 1989-1990 ESTIMATED 11

March 1990

INDICATORS	1984	1985	1986	1987	1988	1989E	1990E
UNITS							
ECONOMIC INDICATORS:							
POPULATION	15.4	15.9	16.5	17.1	17.6	18.3	18.9
CHANGE IN POPULATION	PERCENT	3.6	3.6	3.5	3.5	3.8	3.6
GDP, REAL 1980	26.0	25.3	23.3	24.1	26.5	29.4	30.7
CHANGE IN REAL GDP	PERCENT	(8.0)	(9.7)	3.7	9.9	10.8	4.5
PER CAPITA GDP, IN REAL TERMS---							
1980 AVERAGE EXCHANGE RATE	US \$	1,590	1,412	1,414	1,502	1,608	1,623
CHANGE IN PER CAPITA GDP	PERCENT	(11.2)	(12.8)	0.2	6.2	7.1	1.0
CONSUMER PRICE INDEX (CPI)	1985=100	86.6	100.0	143.0	163.3	214.3	254.0
CHANGE IN CPI (INFLATION)	PERCENT	22.0	15.4	20.1	14.1	31.09	23.19
BALANCE OF PAYMENTS:							
CURRENT ACCOUNT BALANCE	MIL \$	3,220	(3,432)	(166)	(4,085)	(6,600)	(7,800)
GOOD & SERVICE CREDIT	MIL \$	---	---	---	---	---	---
GOOD & SERVICE DEBIT	MIL \$	---	---	---	---	---	---
NET TRANSFER PAYMENT	MIL \$	---	---	---	---	---	---
OFF. TRANSFER PAYMENT	MIL \$	---	---	---	---	---	---
TRADE BALANCE	MIL \$	300	1,836	573	1,685	(600)	(1,000)
MERCH. EXPORTS	MIL \$	9,900	12,236	7,423	10,809	11,723	15,500
MERCH. IMPORTS	MIL \$	9,600	10,400	8,950	10,038	16,200	17,100
TOTAL INTL. RESERVES	MIL \$	1,890	3,000	2,130	1,820	1,903	3,049
CHANGE IN TOTAL INTL. RESERVES	PERCENT	(69.0)	58.7	(29.0)	(14.6)	4.6	7.4
IMPORT COVERAGE RATIO	MONTHS	2.4	3.5	3.7	2.6	2.3	2.9
IMF SITUATION:							
TOTAL EXTERNAL DEBT	MIL US \$	7,874	11,534	16,900	25,000	32,520	38,700
LONG TERM DEBT	MIL US \$	5,241	7,150	11,154	16,500	21,463	25,542
SHORT TERM DEBT	MIL US \$	2,633	4,384	5,746	8,500	11,057	13,158
IMF CREDIT	MIL US \$	---	---	---	---	---	---
TOTAL EXTERNAL DEBT RATIO (EDT/XG)	PERCENT	79.5	94.3	227.7	231.3	238.8	225.0
TOTAL DEBT SERVICE	MIL US \$	---	---	5,300	6,800	7,000	8,200
TOTAL INTEREST SERVICE	MIL US \$	---	---	1,100	1,800	2,300	3,000
DEBT SERVICE RATIO (TDS/XGS)	PERCENT	---	---	71.4	82.9	59.7	51.0
INTEREST SERVICE RATIO	PERCENT	---	---	14.8	16.7	19.6	17.4
CONCESS CREDIT RATIO	PERCENT	---	---	---	---	---	---
VARIABLE CREDIT RATIO	PERCENT	---	---	---	---	---	---
EXCHANGE RATE	(DINARS/US \$)	0.31	0.31	0.31	0.31	0.31	0.31

U.S. AGRICULTURAL REPORTS		UNITED STATES DEPARTMENT OF AGRICULTURE				REPORT 1	
PERIOD: JAN 1969-DEC 1969		FOREIGN AGRICULTURAL SERVICE				01/69/00	
.....		.....				PAGE 001	
AREA/COUNTRY OF ORIGIN	1969	C U M U L A T I V E		T O T A L S		U N I T Y	
AND COMMODITIES REPORTED	UNITS	01/69-12/69	01/69-12/69	01/69-12/69	01/69-12/69	01/69-12/69	01/69-12/69
1000							
WHEAT	MT	932	711	910	895	932	932
WHEAT FLOUR	MT	0	117	110	0	110	110
RICE	MT	407	373	509	313	313	313
BARLEY	MT	46	0	54	54	54	54
COB	MT	200	323	502	502	502	502
CRU CAN PRODUCTS	MT	0	0	0	0	0	0
FEED, INCLD A FOD	MT	7	15	46	15	46	15
BOILED BEANS E SO	MT	0	9	15	15	15	15
BOILED PEAS E SO	MT	0	2	4	2	4	2
LENTILS	MT	0	2	4	2	4	2
GRN A FEED RICE	MT	0	0	0	0	0	0
GRN A FEED TOTAL	.....	1,332	1,532	2,334	2,301	2,301	2,301
SUNFLOWERSEED	MT	0	0	0	0	0	0
COTTONSEED	MT	0	0	0	0	0	0
OTHER OILSEEDS	MT	0	0	0	0	0	0
COGN OIL	MT	0	7	3	2	2	2
SUNFLOWERSEED OIL	MT	0	35	34	12	12	12
OTHER OILS	MT	0	0	0	5	5	5
OTHER OILS A MEAL	MT	103	102	163	272	272	272
OTHER OILS PROO.	MT	0	0	0	0	0	0
OILSEEDS PROO TOTAL	.....	103	174	202	292	292	292
FORAGE A TROP SEEDS	MT	0	0	0	0	0	0
LEGUMINOS VEG SEEDS	MT	1	1	1	1	1	1
OTH VEGETABLE SEEDS	MT	0	0	0	0	0	0
FIELD CROP SEEDS	MT	0	0	0	0	0	0
OTHER SEEDS	MT	0	10	2	35	35	35
CTWH, 1/2, 1/3, 1/4	MT	0	0	0	0	0	0
PIMA, ETC, 1/2, 1/3	MT	0	2	0	0	0	0
COT, MEC, 1/2, 1/3	MT	0	0	0	0	0	0
COTTON PROO TOTAL	.....	1	13	4	32	32	32
PLUM-CURED, OTH	MT	2	2	3	4	4	4
STEMS, RESIDUE	MT	0	1	1	1	1	1

U.S. AGRICULTURAL REPORTS		UNITED STATES DEPARTMENT OF AGRICULTURE				REPORT 1	
PERIOD: JAN 1983-DEC 1989		FOREIGN AGRICULTURAL SERVICE				01/81/80	
VALUES ARE IN 1000 DOLLARS						PAGE 003	
AREA/COUNTRY OF DESTINATION AND COMMODITIES REPORTED		C U M U L A T I V E				01/00-12/89	
		01/83-12/83	01/86-12/86	01/87-12/87	01/88-12/88	01/89-12/89	
Iron							10
OTHER UMAN, MSC		0	0	0	0	0	35,993
TOBACCO PROD TOTAL	.....	14,042	10,194	22,109	21,770	0	0
POULTRY MEAT		0	0	57,732	4,077	0	15,540
EGGS AND EGGS PRODUCTS		0	0	6,714	36,013	0	0
OTHER POULTRY		0	0	0	701	0	0
MILK & MILK PRODUCTS		31	41	2,650	10,056	301	201
OTHER DAIRY PRODUCTS		3,206	5,166	10,200	37,700	25,576	0
DAIRY/POULTRY TOTAL	.....	3,230	5,207	22,046	60,436	31,417	0
LIVE ANIMALS		0	0	5,131	43	0	0
VARIETY MEATS		0	0	0	1,244	0	277
ANIMAL FATS		4,315	910	7,020	14,929	11,737	0
HIDE AND BELTS		0	917	1,017	2,352	1,023	0
WOOL, ANIMAL HAIR		35	0	100	0	0	651
LIVESTOCK BY PROD MISC		0	3	0	104	0	0
LIVESTOCK PROD TOTAL	.....	4,330	1,330	14,267	18,600	16,400	0
FRUIT & VEG JUICES		0	0	150	370	0	0
EDIBLE TREE NUTS		0	257	0	92	46	0
WINE AND WINE PRODUCTS		0	0	0	0	71	0
BEANS		0	0	0	378	102	0
BEAN POT BEC CUT FLO		165	0	0	0	0	0
FRUIT & VEG, MISC		0	0	0	0	0	0
FRUITS & VEGS TOTAL	.....	165	257	150	1,037	1,003	0
SUGAR & SCL OPT, E. ROW		1,632	16,764	32,036	30,101	31,950	0
SUGAR & TROP, MISC		0	5,330	9,404	5,976	6,005	0
SUGAR/TROPICAL TOTAL	.....	1,632	22,102	41,440	36,155	38,455	0

Vol. . OF IRAQ'S IMPORTS
OF SELECTED AGRICULTURAL PRODUCTS
CT 1962 - 1966
(UNITS OF MILLIONS AS INDICATED)

COUNTRY/ORIGIN: IRAQ
TRADE TYPE: IMPORTS

SOURCE: FAO/IAS TRADE DATA

1962 1963 1964 1965 1966 1967 1968 1969 1970

1971-75

1976-80

1981-85

1986-90

1991-95

1996-00

2001-05

2006-10

2011-15

2016-20

2021-25

2026-30

2031-35

2036-40

2041-45

2046-50

2051-55

2056-60

2061-65

2066-70

2071-75

2076-80

2081-85

2086-90

2091-95

2096-00

2101-05

2106-10

2111-15

2116-20

2121-25

2126-30

2131-35

2136-40

2141-45

2146-50

2151-55

2156-60

2161-65

2166-70

2171-75

2176-80

2181-85

2186-90

2191-95

2196-00

2201-05

2206-10

2211-15

2216-20

2221-25

2226-30

2231-35

2236-40

2241-45

2246-50

2251-55

2256-60

2261-65

2266-70

2271-75

2276-80

2281-85

2286-90

2291-95

2296-00

2301-05

2306-10

2311-15

2316-20

2321-25

2326-30

2331-35

2336-40

2341-45

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2611-15

2616-20

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2646-50

2651-55

2656-60

2661-65

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2676-80

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2986-90

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2996-00

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3106-10

3111-15

3116-20

3121-25

3126-30

3131-35

3136-40

3141-45

3146-50

3151-55

3156-60

3161-65

3166-70

3171-75

3176-80

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3186-90

3191-95

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3201-05

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3211-15

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09 MAR 1990

INFORMATIONAL MEMORANDUM FOR UNDER SECRETARY CROWDER

THROUGH: R. E. Anderson, Jr.
Administrator

FROM: F. Paul Dickerson
General Sales Manager
and Associate Administrator

SUBJECT: Iraq GSM-102 - Program Limit Suggested by FAS Risk Analysis

Ann Veneman asked what program level would be supported by FAS risk analysis. While our formal method for establishing country program limits is not yet operational, the consensus of my staff prior to our consultations with Iraq last fall was for a maximum program level of \$800 million without freight coverage. This level would have about equaled repayments, reduced our overall exposure with Iraq somewhat, and without freight coverage, financed about the same level of commodities. At that time the Treasury Department indicated, assuming other problems didn't exist, a \$600-\$700 million limit was more appropriate. Our original offer of \$400 million was one-half of the \$800 million figure, and the 1990 line was subsequently announced at \$500 million.

Attached is our latest financial and economic profile for Iraq.

Attachment

Subject

Status of request for Iraqi
interviews

Date

To: Rimantas A. Rukstele
United States AttorneyFrom: Gale McKensie
Assistant U.S.

During the course of our BNL-Atlanta investigation information has been developed that Iraqi government and others connected with them have required "after services" from U.S. exporters on CCC guaranteed commodities as well as "consulting fees" from U.S. exporters of non-guaranteed products. Such conduct could constitute a violation of 18 U.S.C. 714(M) if the "port value" of a CCC guaranteed commodity were inflated to cover such payments. The Corrupt Practices Act could also be violated if an Iraqi government official were retaining a portion of either "after sale services" or "consultant fees" for personal use. In addition, certain Iraqis had knowledge of and participated in a scheme to defraud BNL.

We therefore requested through attached letters of February 13 and March 1 that DOJ arrange through State or other means to conduct interviews of specified Iraqis in Atlanta or Washington thought to have personal knowledge of "after sale services" and the scheme to defraud BNL.

The U.S. Department of Agriculture (USDA) and I have been advocating a linkage of such Iraqi interviews with the imminent approval of an additional \$500 million in CCC guarantees for Iraq. While our office does not control such decisions, it is most important that neither USDA nor I attempt to justify the issuance of the additional \$500 million in CCC guarantees as necessary to obtain Iraqi interviews. This office would prefer foregoing Iraqi interviews rather than "paying \$500 million" for the opportunity to interview individuals who, in all probability, will not provide any useful information. On the other hand, requests for such interviews are a natural progression of our investigation. Our office has received "messages" from the Iraqi Ambassador to the United States and others in the Iraqi government through various third parties. Iraq is most anxious to cooperate with the Atlanta office. But in no event should these potential Iraqi interviews be a justification for issuance of an additional \$500 million in CCC guarantees.

A second problem regarding Iraqi interviews involves the USDA Office of General Counsel's desire to submit questions which impact our criminal investigation to the Iraqi government in general prior to our requested interviews of specified Iraqi individuals. See attached March 1 list of USDA Office of General Counsel questions. Since the proposed questions impact our criminal investigation, the USDA Office of Inspector General agrees with this office that the Iraqis should first be requested to produce for interview in Washington or Atlanta by a date certain the specific individuals named on our lists of February 13 and March 1. Should the Iraqis decline or simply fail to give us an answer on a timely basis, we have no objection whatsoever to any USDA General Counsel questions. If the Iraqis do agree to personal interviews, advance notice of specifics as contained in the current USDA proposed questions could be counter productive to these interviews.

Therefore, it is suggested that Iraq's position in regard to such interviews be immediately determined. In the meantime, we have no objection to USDA Office of General Counsel propounding to the Iraqi government general policy questions 1 through 15 contained at pages 2 and 3 of the USDA March 1 submission. However,, the following additions to certain of these questions may prove helpful.

Question 6 add: Did Iraq ever reveal bid prices to a competitor company or individual prior to bid closing?

Question 8 change to read: Did Iraq request or receive any additional compensation in the form of "after sales services" or in any other form from any U.S. agricultural exporters whose sales were made under any CCC guaranteed program? If so, please provide dates, amounts of compensation, nature of compensation Iraqis having knowledge of such transactions, and individuals and agencies receiving compensation.

Question 9 add: underlined phrase ... in requesting and receiving without request "after sales services" ...

This position is conveyed to Mark Richard by attached March 5 letter which I suggest we hand deliver on Monday in light of his concerns expressed to you on March 5 about communication security in this case.

Finally, in response to Mark's comments on Mark concerning "new developments", "broader problems with government," and "Customs problems in San Diego," the insight is provided.

Back in October 1989, the U.S. Attorney's Office in San Diego advised that Customs was attempting to set up purchase of equipment in San Diego by Iraqis through owned companies Matrix Churchill and/or TDG without licenses. Customs in San Diego initially asked that service of Matrix Churchill subpoenas in the BNL-Atl investigation although allegations about Matrix Churchill relating to the BNL matter were then front-page news world. We also had to use secured phones for a period these restrictions were lifted by Customs Headquarters in Washington when Matrix Churchill attorneys approached offered to accept service of "their grand jury subpoena had been expecting a subpoena since so many other BNL had received one. Matrix was even wondering and asking about the delay. Since that time Customs Headquarters consistently advised us to proceed normally with our investigation and has this week approved an additional Churchill grand jury for document production regarding "consultant fees." John Lowe and Dave Erkin of the Investigations Divisions have been assigned to coordinate matters at Customs Headquarters. Customs is also in contact with Walt Sulzysky and Joe Tate of DOJ Internal Security. Without knowledge, the Iraqis have not yet arrived in San Diego to purchase the unlicensed material.

Attached is a short summary of preliminary information developed regarding payments to Iraqis for government personal benefit. Also attached is a memorandum of F. Paul Dickerson, USDA Foreign Agricultural Service regarding 1988 and 1989 confrontations regarding "after sale" between USDA and the Iraqi CCC negotiating delegation.

The Iraqi issues discussed in this memorandum are of which I am aware. The only other matter which may be the timing of Iraqi interviews, if requested. It is proposed to proceed with a Teseller proffer in Istanbul during the March 20 because this is the one period in the foreseeable future when both defense counsel are available, Teseller is interested, I am between trials, and IRS needs the information to supplement their Drogoul report by the time it reaches Washington. Therefore, if a request is to be made regarding Iraq it should be made promptly with an initial determination whether Iraq is willing to produce individuals in Washington or even Atlanta or whether such interviews are feasible without delay in the Istanbul trip without "something concrete" being counterproductive.

MEMORANDUM

TO: Michael Young
Deputy Legal Advisor
State Department

FROM: Kevin J. Brosch *Kevin* 7/12/90
Office of General Counsel -- PACS
U.S. Department of Agriculture

RE: Iraq GSM-102/ BNL Affair: Request for Meeting with
Iraqi Officials

This afternoon, USDA's Office of General Counsel met with representatives of the Department of Justice and the Office of the U.S. Attorney for the Northern District of Georgia to discuss our respective interests in interviewing Iraqi officials regarding perceived irregularities with the Iraq GSM-102 program. We had previously provided DOJ and USA-Atlanta with a copies of questions that USDA would like to pose to the Iraqis, and had asked DOJ whether it opposed a USDA approach to Iraq on these subjects in light of the ongoing grand jury investigation into the BNL affair.

DOJ does not have any problems with the questions we have suggested. However, they propose that USDA and DOJ jointly approach Iraq and ask that it send a delegation to Washington as soon as possible to meet with officials of both agencies to discuss issues arising out of the BNL investigation. DOJ requested that USDA not send specific questions to Iraq prior to such a meeting. Moreover, DOJ has asked that the proposal to Iraq specifically request the attendance of seventeen individuals (current or past Iraqi officials involved in the BNL transactions). A list of these individuals, as provided by USA-Atlanta, is attached.

It was agreed that I would prepare a draft of the proposal, and that the draft would be provided to the State Department for its review and input on substance and approach. Ray Ruxton, the U.S. Attorney for Atlanta, and Gale McKenzie are returning to Atlanta this afternoon. Drew Arena, of DOJ's Office of International Affairs (PTS: 786-3616) is also involved. I will have an initial draft of a proposed communication prepared by tomorrow morning.

- (1) Abdul Hussein Sahib Director of
State Company
Foodstuff
- (2) Ghassan Al-Gharrawi Director General
for Import
Company
Trading
- (3) Sabah Flayeh Steel & Tin
Division
for Consumption
Material
- (4) Harith Al-Barazanji Director General
State Enterprise
Tobacco

- (5) Saadoun Abdul Aziz Deputy Director
State Enterprise
Tobacco

- (6) Zuhair Daoud Director General
State Company of Grain
Trading and Processing
- (7) Hassan Salman Montreal, Canada

- (8) Sadik H. Taha MTL Director General for
and Loans
Central Bank of Iraq
- (9) Dr. Abdul Munem Hashim MTL Director General for
Hafidain Bank
- (10) Hikmet T. Ikhram MTL General Manager
Hafidain Bank
- (11) Abdulwahid Petros Tuma MTL Officer
Central Bank of Iraq
- (12) Subi Franghol Deputy Governor
Central Bank of Iraq

Ahmed Al-Dulaimi MTL (Under Secretary)
 Under Secretary
 Ministry of Industry and
 Military Manufacturing

(13)

Kaja Hassan Ali MTL
 Director General,
 Department
 Ministry of Industry

(14)

Dr. Fadel Jawad Kadhum
 Dr. Safa Al-Habshi
 Ministry of Industry

(15)

(16)

Adnan T. H. Al-Amiri
 Legal Adviser
 Director General, Al-Masdar
 Complex
 Ministry of Industry
 President, Chairman of TUG
 President of Matrix-Church
 (England)

(17)

Director, Matrix-Church
 (England)


MEMORANDUM

BY RAPIFAX

March 13, 1990

TO: Ray Ruxton
Gale McKenzie
Office of the U.S. Attorney, N.D. Ga.

Drew Arena
Wendy Blank
Department of Justice, International Affairs

FROM: Kevin J. Brosch 
Office of General Counsel -- PACS
USDA

Attached is a copy of the draft proposal which was discussed yesterday afternoon in the meeting between USDA, DOJ and USA-Atlanta. I have contacted Mike Young, the Deputy Legal Advisor at the State Department to tell him that this is in the works.

USDA is receiving increased pressure with regard to the pending Iraqi request for an additional line of GSM-102 guarantees for this fiscal year. We need to resolve the issue of the approach to Iraq as soon as possible, and would like your comments today so that we can provide a draft to the State Department. If you need to reach me, my telephone is (202) 447-2940. My fax is FTS 245-5091, or (202) 245-5091.

Thanks for you help.

DRAFT/3-12-90/KJB

**TO: The Ambassador of the Republic of Iraq
Washington, D.C.**

Recently, the Government of Iraq has requested the Commodity Credit Corporation (CCC) to extend for the remainder of fiscal year 1990 an additional \$500 million in export credit guarantees under CCC's GSM-102 program. This request has been taken under advisement by the CCC and the U.S. Department of Agriculture (USDA) and is currently being reviewed.

Since September, 1989, the Iraq GSM-102 program has been subject to substantial public inquiry due to various allegations of possible irregularities that have surfaced as a result of the Banca Nazionale del Lavoro (BNL) investigation in Atlanta, Georgia. The Office of the United States Attorney for the Northern District of Georgia is currently investigating certain GSM transactions with Iraq financed by BNL. In addition, USDA/CCC has been conducting its own internal review of the Iraq GSM program.

The United States appreciates the fact that, on a number of occasions, the Government of Iraq has offered to provide its full cooperation on these matters when the U.S. government would be in a position to seek specific information. USDA/CCC now has a number of specific areas of inquiry with respect to transactions conducted under the Iraq GSM-102 program, and requests the assistance of the Government of Iraq in resolving uncertainties about the nature of those transactions. In addition, the Office of the United States Attorney for the Northern District of Georgia has also requested the assistance of the Government of Iraq with respect to issues that have surfaced as a result of the BNL investigation in Atlanta.

To address the concerns of these two agencies, the Government of the United States requests that the Government of Iraq assemble a team of persons knowledgeable about Iraqi GSM-102 purchases during the period 1985-1988, and particularly about purchases made by Iraq that were financed through BNL-Atlanta. The United States requests that this team meet with officials of the U.S. Department of Agriculture and the Office of the U.S. Attorney in Washington, D.C. during the week of March 25, 1990, or as soon thereafter as can be conveniently arranged. The agencies have specifically requested the participation at these meetings of the seventeen individuals listed in Annex 1, which is attached to this document.

The United States proposes that these meetings consist of interviews by the Office of the United States Attorney of the listed individuals; and separate meetings between the Iraqi team, and a team of officials from USDA/CCC where the U.S. side will identify specific past issues and discuss the need for procedural

Source: U.S. OA.

0

reforms and changes necessary for any future Iraq.
Thank you in advance for the cooperation from the
Iraq in resolving these important questions.



United States
Department of
Agriculture

Foreign
Agricultural
Service

Office of
Agricultural
Affairs

2/2-H

CO1787

MAR 14 1990

BRIEFING MEMORANDUM FOR THE UNDER SECRETARY

FROM: R. E. Anderson, Jr.
Administrator

SUBJECT: Your Meeting with April C. Glaspie, U.S. Ambassador to Iraq, on
Thursday, March 15, at 8:00 P.M.

Friday

9:00

PURPOSE OF MEETING:

To discuss the GSM-102 Export Credit Guarantee Program and status of the Iraqi request for an additional \$573 million in guarantees.

BACKGROUND:

Ambassador Glaspie was appointed to Iraq in 1988. Prior to her ambassadorial appointment, Ambassador Glaspie served as the Director, Near East Area (NEA/ARN) at the Department of State. There is no change from information provided in the attached memos of February 23 and March 9.

Paul Dickerson, Chris Goldthwaite and Max Bowser of FAS, and Kevin Brosch from the Office of the General Counsel, will attend the meeting.

TALKING POINTS:

1. Total sales registrations as of March 9, 1990, were \$417.4 million out of the \$500 million announced. With the reallocation of \$37.7 million on March 8, plus additional registrations in the next few weeks, the \$500 million in GSM-102 credit guarantees that have been announced are nearly exhausted.
2. We are reviewing the Government of Iraq's request for an additional \$573 million of commodities to be covered under the GSM-102 program.
3. We are reluctant to announce further coverage until concerns about possible Iraqi violations of CCC regulations arising out of the BNL investigation can be fully addressed.

Reviewed by: _____



U.S. Department of Justice

Washington, D.C. 20530

March 15, 1990

Michael Young
Deputy Legal Adviser
United States Department of State
Washington, D.C. 20520

Dear Mr. Young:

Re: Request for Meeting with Iraqis

The United States Attorney's Office for the Northern District of Georgia is investigating the activities of the Atlanta office of the Banca Nazionale del Lavoro (BNL), an Italian concern. That investigation includes extensions of credit made by BNL to Iraq during the period from January, 1986 to August, 1989. The Government of Iraq is aware of the investigation and has offered on a number of occasions to cooperate with the United States. The investigation is now at a point where the U.S. Attorney's Office wishes to accept the Iraqi offer and invite Iraq to have certain named individuals come to the United States for interviews.

Therefore, we request that the United States extend in an appropriate fashion, both in Washington and Baghdad, an invitation to Iraq to have the persons named on the attached list travel to the United States to meet with the U.S. authorities conducting the investigation.

In issuing this invitation you may tell Iraq that the investigation is for possible violations of U.S. law, including, 18 U.S.C. §§ 371, 1001, 1341, 1343, and 2384.

We would like to begin the meetings on March 26, 1990, or as soon thereafter as can be arranged. We expect that each of the persons invited will need to allow for a minimum of three days in the United States in connection with the U.S. Attorney's investigation. Further, the United States offers its assurances that for such time as these individuals are in the United States as our guests and cooperating with the U.S. Attorney's Office, that Office will not serve process upon them or otherwise seek to assert jurisdiction over them. In addition, and pursuant to our standard practice, the United States is prepared to make and pay for the travel arrangements and per diem of each of the persons invited.

Finally, the Commodity Credit Corporation (CCC) and the Department of Agriculture (USDA) are considering a request by Iraq to extend \$500 million in export credit guarantees under CCC's GSM-102 program for the remainder of fiscal year 1990. The USDA and CCC also need to meet with the persons named above in connection with their own investigation into alleged irregularities concerning extensions of credit by BNL to Iraq for commodity purchases under the GSM-102 program during the period from 1985 to 1988 in order to complete the processing of the Iraqi application. Therefore, and in order to accommodate all concerned, we propose that the USDA and CCC meetings with the Iraqis also be scheduled for the time while they are in the United States. In issuing the invitation for them to meet separately with the USDA and CCC, you may wish to inform them that the U.S. Attorney's Office is unable under our law to share the information it has developed with the USDA and the CCC, thus making it impossible to satisfy all U.S. interests in one meeting alone.

If you need further information, feel free to call me at 786-3500.

Sincerely,



Drew C. Arena
Director
Office of International Affairs

Attachment

LIST OF INVITEES

Abdul Wassein Sahib	Director General State Company for Foodstuffs Trading
Harith Al-Barazanahi	Director General State Enterprise for Tobacco and Cigarettes
Zuhair Daoud	Director General State Company of Grain Trading and Processing
Sadik M. Taha	Director General for Agreements and Loans Central Bank of Iraq
Ahmed Al-Dulaimi	Under Secretary Ministry of Industry and Military Manufacturing
Raja Hassan Ali	Director General Economic Department Ministry of Industry
Dr. Fadel Jawad Kadhum	Legal Adviser
Dr. Safa Al-Habobi	Director General Al-Nassar Complex Ministry of Industry President, Chairman of TDG President of Matrix-Churchill (England)

506



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

000621

DATE: March 16, 1990

TO: Nicholas Rostan, Esq.
General Counsel
Nat'l Security Council

TELEPHONE NO. _____ FAX NO. 315-7370

FROM: Kevin J. Brosch
Office of the General Counsel
USDA

TELEPHONE NO. 447-2946 FAX NO. 447-2946
FIS 243-5091
(202) 243-5091

PAGES SENT (INCLUDING COVER SHEET): 3

REMARKS:

507



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

000627

DATE: March 16, 1990

TO: Gandra L. Charles
Director, NE & Asian Aff
Natl Sec. Council

TELEPHONE NO. 395-3552 FAX NO. 395-7350

FROM: Kevin J. Brady
Office of the General Counsel
USDA

TELEPHONE NO. 447-2946 FAX NO. (202) 245-5091

PAGES SENT (INCLUDING COVER SHEET): 3

REMARKS:

MEMORANDUM

000625

TO: Michael Young
Deputy Legal Advisor
Department of State

FROM: Kevin Brosch *Kevin Brosch* 3/16/90
Office of the General Counsel -- FACS
Department of Agriculture

As I discussed with you last evening, we did not have an opportunity to review the letter sent to you by the Justice Department yesterday which requested meetings with Iraqi officials here in Washington. Apparently, Justice determined to redraft the proposal we had made without our review, and to present the letter to State on its own, rather than as a joint proposal from Justice and Agriculture.

We have concerns with that letter, as Justice has drafted it. Our General Counsel has decided that it would be best for us to provide our own request letter, independent of that previously provided by Justice, which expresses Agriculture's specific need to meet with a competent and knowledgeable delegation with specific responsibility for Iraq's current policies and practices vis-a-vis the GSM-102 program. We will inform Justice of our decision to proceed along this track.

Attached is a copy of a draft letter the General Counsel has asked me to prepare. If this meets with your concurrence, we will have it cleared and provide it to you with a cover letter from the General Counsel.

Please let me have your reaction as soon as possible. I am providing a draft simultaneously to Mr. Rostow and Ms. Charles at NSC.

KJE DRAFT

000626

March 16, 1990

The Honorable April Gillespie
United States Ambassador to Iraq
Baghdad, Iraq

Dear Ambassador Gillespie:

The United States Department of Agriculture (USDA) and the Commodity Credit Corporation (CCC) have been conducting a review of CCC's Export Credit Guarantee Program (GSM-102) with Iraq. As you know, this review arises in the context of a number of recent allegations of possible impropriety that have surfaced as a result of the grand jury investigation being conducted by the Department of Justice concerning the Atlanta agency of Banca Nazionale del Lavoro (BNL). We take note, and appreciate, that the Government of Iraq has on repeated occasions assured representatives of the United States that it shares our concerns over this matter and wishes to cooperate with U.S. authorities in any investigation.

The USDA/CCC review is being conducted independent of the grand jury investigation of BNL in Atlanta pursuant to CCC's independent regulatory authority. This review is important to our continuing oversight responsibilities regarding current and pending GSM export credit guarantees. At this point in the review, we have determined that it is essential that USDA personnel meet with competent and informed representatives of the Government of Iraq to discuss our concerns about a number of issues that have come to our attention as a result of our review. USDA would wish to discuss specific questions regarding past Iraqi practices with respect to GSM contract pricing, shipment, tendering practices, requests for additional services, imposition of special taxes and other related issues.

We therefore respectfully request that the Government of Iraq appoint an appropriate delegation to meet with officials of USDA in Washington, D.C. or at a mutually agreeable location on March 25, 1990, or as soon thereafter as possible to discuss these matters.

Sincerely,

~~SECRET~~

SUBJECT: Amb. Glaspie's Meeting with Under Secretary Crowder

Amb. Glaspie and Sandra Charles from the NSC staff, accompanied by NGA, discussed the CCC second tranche with USDA Under Secretary Crowder this morning. Crowder wanted to further delay release of the second tranche. Questions remained about over-pricing in a number of commodity transactions that took place in 1985-86. New CCC procedures would eliminate such abuses in future, but Crowder wanted all questions regarding past transactions answered before going forward. He also objected to Iraqi business tactics: they intimidated and sought to squeeze extra concessions out of exporters. USDA had a report of an Iraqi request for "after sales services" as recently as last fall. Amb. Glaspie noted that these were the dangers of doing business in the Middle East: U.S. businessmen had to reject such pressures. Crowder insisted that CCC would not deal with those engaged in unethical business practices. Amb. Glaspie said continued delay would hurt U.S. producers and that Australia and Canada were waiting in the wings to take over the Iraqi market. Crowder indicated that this was a secondary concern at the moment. He was prepared to see the Iraqis restricted to buying on a cash-only basis.

MGA noted that these concerns had been discussed endlessly among U.S. agencies, but few had been raised with Iraq. A USDA lawyer who was present acknowledged this. He said USDA now planned to detach its inquiry from the slow-developing Justice investigation and put its questions to the Iraqis immediately through State.

USDA's decision to go forward independently is a positive development, but it is too little too late. The Iraqis are contracting their major commodity purchases now. To await the results of the USDA inquiry would effectively put U.S. producers out of the running. Even assuming that Crowder's disquisition on business ethics was strictly addressed to the record, it seems clear he will not stick his neck out for Iraq until he is absolutely certain it is safe to do so.

Source: State Department

~~SECRET~~

DEPARTMENT OF STATE		IS/PFC/CDR	Date: 7/25/93
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WFO SAYS, AND BELIEVES THAT IN THIS DECADE STATES CAN
NO LONGER LOSE WORLD OPINION.

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6. A. HASANATI STATED THAT THE SECOND INSTANCE OF CCC
CHARGESHEET (NAME SAID TO BE XXXXXXXXXX) WAS
CHARGESHEET FOR XXXXXXXXXX AND THAT THE TWO WERE NOT THE SAME.
THERE ARE PEOPLE CONVINCED THAT THE PROGRAM HAS BEEN
ABUSED. A. HASANATI ASKED WHY CCC HASN'T TAKEN ITS
QUESTIONS TO IRAQ. CHARGESHEET BE HAD JUST RETURNED FROM
AFGHAN AND SAID HE WOULD LOOK INTO THE SITUATION. HE
EXPRESSED THE HOPE THAT HE WILL BE ABLE TO WORK CLOSELY
WITH THE GCN ON ALL ALLEGATIONS OF MISCONDUCT. A. HASANATI
SAID HE WILL HAVE HIS GOVERNMENT'S COOPERATION.

7. K. PASHAT INQUIRED ABOUT REPORTS THAT THE U.S. IS SELLING AN ANTI-MISSILE SYSTEM TO ISRAEL. GARY REPLIED THAT HE WAS DISCUSSING A POSSIBLE SALE OF PATRIOT SPACE TO AIR MISSILES TO ISRAEL AND SEVERAL OTHER COUNTRIES. THE SYSTEM IS ENTIRELY DEFENSIVE, NOT OFFENSIVE, AND HAS SOME ANTI-MISSILE CAPABILITY. ENCLOSURE

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LOAN FOR MILLER

DEPARTMENT OF STATE

18/FPC/CDR 12/1/74 Da

E.O. 12958: DECL: OADR
 TAGS: PDEL, EACR, MASS, 12, UK, 13
 SUBJECT: 1982 AMBASSADOR CARS ON REE PMS CHRY-
 SLER CASE, CCC GUARANTEES, PATRIOT SALES

☐ RELEASE
☒ EXEMPT
☐ DENY
☐ DELETE Non-Responsive Info
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 FOIA Exemptions _____

ALL Cases Orig:
EO Chabons Review Brief TS authority to
() CLASSIFY in () S or () C OADR
() DOWNGRADE TS to () S or () C OADR

1. [REDACTED] (ENTIRE TEXT).

2. IRAQI AMBASSADOR AL-HUSAYNI REQUESTED AN APPOINTMENT WITH MEA HAS CHIEF ON MARCH 19. CHIEF DENIED THE REQUEST. CASE. AL-HUSAYNI CALLED SECOND ASST. CHIEF-POWERED MEA CHIEF, AND SAID HE WAS ANGRY WITH THE DECISION. SPOKE WITH HIS OFFICIALS ON THE ISSUE. CHIEF SAID THE STATEMENT WOULD NOT REFLECT THE FEELINGS OF PEOPLE WITHIN THE USG. HEAS MUST EXPECT AN EMPHATIC BACKLASH BECAUSE OF THE SECRECY OF THE THING, BASIC OF ETHICS. ABBEY OF A REAL AFFAIR PROCESS AND LACK OF DEDICATION. COMPLETION SUCCESS. HE WAS NOT TRYING TO DISCLOSE BALDWIN'S REACTION. HE CLEARLY VIOLATED CERTAIN NORMS. BUT ASPECTS OF THE WAY THE CASE WAS HANDLED MAY BE ASSESS WHETHER IRAQI WANTS TO BE PART OF THE WORK IN THE 1990S.

3. M. PASHAT SAID IRAN WOULD DO IT AGAIN. IRAN IS VERY SENSITIVE IN MATTERS OF NATIONAL SECURITY, AND IRANIAN LAWS DOES NOT PROVIDE AN APPEALS MECHANISM IN CASES INVOLVING

ESPIONAGE AND SABOTAGE: THE ONLY APPEN IS TO CLERENCY OF THE PRESIDENT. THE EXECUTION WILL BE A DETERMIN: TO OWNERS, AND IRAD WILL ALLOW TO NO ONE. IRAD'S SYSTEM IS DIFFERENT, AND OTHERS WILL HAVE TO ACCEPT THAT. ~~CONF~~ ADVISED IN CASUAL THAT IRADING SUCH A RISK: THE WORLD ONLY ATTEND IN S. DEFENSE

4. AL-NABHAT ATTACKED THE BRITISH "GOVERNMENT AND MEDIA" CAMPAIGN AGAINST IRAQ. AIMED AT PREVENTING THE EXECUTION OF A SPY WORKING FOR THE BRITISH. THE BRITISH, AL-NABHAT SAID, HAVE A "COMPLEX", A COLONIALIST MENTALITY. THEY HATE COMMUNISTS AND ARAB TERRORISTS, AND ALLOWED VIOLENT DEMONSTRATIONS AGAINST HIS ENEMY THERE.

5. GHEEN SAID, SPENDING PERSONALLY, HE WAS NOT CONVINCED FROM AVAILABLE INFORMATION THAT DAZOF WAS A SPY. THE CONFESSION, OBTAINED BY THE POLICE WHILE HE WAS UNDER DETENTION, WAS SUSPECT. HE -GHEEN- SAID HE HAD DAZOF FROM LONDON AND BELIEVED HE WAS A SPY. DAZOF INTERVIEWED HIM THREE OR FIVE TIMES AND NEVER PUBLISHED ANY OF IT, AND FEW STORIES CAME OUT OF HIS TRIPS TO IRAN. GHEEN SAID HE -GHEEN- WAS ONLY CONFIRMING THAT DAZOF HAD NOT BEEN

MEMORANDUM FOR UNDER SECRETARY CROWDER

001755

FROM: Kevin J. Brosch
OGC-IACP

RE: Talking Points for March 27 Meeting with Iraqi
Ambassador

INTRODUCTION

o The current GSM-102 program for Iraq has come under increasing public scrutiny over the past six months, largely as a result of the initiation of the grand jury investigation in Atlanta into the loan practices of Banco Nazionale del Lavoro (BNL).

o As a result of initial allegations that surfaced in the BNL case, USDA/CCC initiated its own internal review of the program last October. This review has involved analysis of the Iraqi program in general, as well as analysis of past GSM-102 transactions, focusing on records maintained by the CCC, BNL and certain exporters.

o Iraq's request for an additional allocation of \$500 million in GSM-102 credit guarantees for FY'90 comes at a time when USDA/CCC has come under increased questioning in the interagency process on two major issues: (1) Iraqi administration practices with respect to its side of the GSM-102 program; (2) the creditworthiness issue -- i.e., the ability of Iraq to manage its repayment at an annual \$1 billion level.

o In addition, the Iraq GSM-102 program has come under direct congressional scrutiny. Both the Senate and House Agriculture committees have requested frequent briefings on the status of the program and any ties that the program may have to the alleged bank problems being investigated in Atlanta. Early drafts of the proposed 1990 Farm Bill have contained new provisions adding additional requirements to the program that appear to have been motivated directly by concerns over the Iraq program -- e.g., the certification of arrival at destination, the prior approval by CCC of participating banks, the non-U.S. commodity provisions, etc.

o Before USDA/CCC could hope to propose successfully any additional tranche of guarantees for Iraq in FY'90, it must be in a position to defend the program both in terms of past and ongoing Iraqi practices, and also with respect to future creditworthiness.

001756

IRAQI ADMINISTRATION AND PRACTICESPricing

o USDA/CCC review of prior transactions, during the period 1985-1987 indicate that Iraq agreed to pay commodity prices which appear to have given exporters very large and uncustomary margins of profit:

Corn: \$16-\$20/MT

Sugar: \$15-\$35/MT

Rice: \$10-\$20/MT

The prices paid for these commodities also appear to have been substantially above prevailing market prices.

o The Internal Revenue Service has alleged in a tax deficiency case in Atlanta that one exporter that received high prices in its trades with Iraq made secret payments of hundreds of thousands of dollars to a former BNL bank official.

o There have been rumors that large funds of money resulting from some of these transactions were transferred to special accounts in Europe.

o Allegations have also arisen in the press that the transactions run through BNL may have been used to finance the provision of non-agricultural goods or equipment; to pay kickbacks; or to pay for special and undisclosed "consulting fees".

o While USDA/CCC is not in a position to substantiate or credit any of these allegations, it does know for certain that Iraqi purchasers willingly paid U.S. exporters very high prices that cannot be explained by then-prevailing market prices or conditions.

o USDA/CCC needs credible and documented information that explains why Iraq paid excessively high prices for these commodities, who received and retained the benefits, and what, if anything, the additional funds were used for.

Landing Verification

o Questions have been raised in the course of the BNL investigation with respect to documentation of ultimate destination for commodities shipped to Iraq.

001757

3

o Very often, neither bank nor exporter records of GSM sales to Iraq contain any documents which substantiate the ultimate arrival of the commodities sold in Iraq. Typically, the files contain ocean-going bills of lading indicating that the commodities were being shipped to ports in either Turkey or Jordan, but no documents demonstrating consignment to Iraqi officials or agents in those ports, no overland bills of lading, and no landing certificates.

o Press reports have speculated on the possibility of commodities sold under the program being diverted or bartered prior to their arrival in Iraq. Although USDA/CCC doubts that this has, in fact, occurred, the adverse press and congressional inquiry on this issue makes it an absolute necessity that Iraq develop a system of shipping documents/landing certificates which will substantiate the arrival of the commodities in Iraq. Iraq also needs to work with USDA/CCC to provide, if possible, to document the arrival of commodities previously sold and shipped under the program.

o The Senate proposal for the 1990 Farm Bill already carries a provision requiring proof of destination, a provision which arises from congressional concerns over this issue in the Iraq program. Such a system may well become a statutory requirement very soon.

After Sales Service and Special Taxes

o In September, 1988, during negotiations with Iraq over the FY'89 allocation, USDA/CCC raised with Iraq its concern about Iraq's attempt to require U.S. exporters to provide "after sales service" in conjunction with GSM-102 sales. It was explained that this practice violated program regulations and could not be tolerated. Iraq pledged to discontinue this practice.

o In September, 1989, USDA/CCC received complaints from a number of exporters that Iraq was attempting to require after sales services in the form of trucks and other equipment. USDA/CCC subsequently obtained copies of broadcast telexes from Iraqi Ministries making such demands. These telexes threatened to exclude exporters who refused to comply with doing any additional GSM-102 business in Iraq.

o The USDA/CCC review has also determined instances in the past where Iraq has attempted to exact after sales service from U.S. exporters in the form of additional goods, or in the form of agreements by U.S. exporters to use certain Iraqi shipping lines.

o In October, 1989, USDA/CCC again raised this issue with Iraq and were again assured that Iraq would no longer engage in this practice.

001758

o Very recently, USDA/CCC has learned that Iraq has attempted to require U.S. exporters to bear the cost of a so-called "stamp tax" as an element of the GSM-102 contracts. CCC has informed exporters that any agreement of this sort would be considered an "allowance" within the meaning of the GSM regulations, requiring the exporter to net the value of the stamp tax from the contract price in reporting "port value" for the purpose of the guarantee.

o USDA/CCC has also communicated to Iraq its displeasure with this practice, informing Iraq that it considered such a stamp tax requirement to be economically indefensible, and an abuse of the program. USDA/CCC perceives this to be a blatant attempt by Iraq to use the CCC program as a means to generate foreign exchange. Iraq has acknowledged receipt of USDA/CCC's protest, but has made no definitive response.

o USDA/CCC needs a pledge from Iraq indicating that Iraq will not engage in these or similar attempts in the future to require U.S. exporters to provide additional consideration in conjunction with GSM transactions. Iraq needs to provide USDA/CCC with a detailed description of the steps that it will take to inform its Ministries that this practice must cease, and of the actions it will take to enforce these requirements.


CREDITWORTHINESS

o Iraq has historically made full and timely payments of its obligations under the GSM program. However, because of Iraq's recent failure to service its debt to other nations, and because of press reports regarding various defaults, there is growing concern in the interagency process, and in Congress, regarding Iraq's ability to service its debt on a \$1 billion GSM program.

o Since January, CCC has received a number of default from U.S. banks involving GSM repayment, all of which involved Bank Rafidain. As a result, CCC was required to temporarily suspend the Iraqi line on three occasions -- between January 22 and 24; between January 26 and February 16; and as of March 26. In the first two instances, the problems appear to have been linked to bank transfer difficulties; the current suspension is being investigated.

o Both Congress and other U.S. government agencies have asked USDA to keep them informed of any suspension of the program for non-payment, even where these suspensions appear to be technical in nature. There is growing feeling within the U.S. government that these repeated problems indicate more than simply bank transfer problems, and raise fundamental issues of creditworthiness.

Memorandum

my file memo


Subject	Date
BNL Investigation - DOJ Review	March 27, 1990
To Gerrilyn Brill Chief, Fraud Section	From Ray Rukstale <i>RR</i> U. S. Attorney

The following comments were made to me on March 22, 1990, by Larry Urgenson following their review of the BNL case:

Urgenson felt the investigation was not complete and that Gale's conclusions regarding BNL were not substantiated. Urgenson asked that Gale prepare a comprehensive memorandum on the case, reflecting her analysis in support of her conclusion, to include anticipated defenses.

In addition, Urgenson suggested that Mr. Tetzeller be interviewed as soon as possible. Urgenson did not feel there would be any merit in interviewing Iraqi government officials.

RAR/dp

**S/S-0
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Cat. A - Caption removed;
transferred to O/FADRC
Cat. B - Transferred to O/FADRC
with additional access
controlled by S/S
Cat. C - Caption and custody
retained by S/S

Reviewed by: Elijah Kelly
Date: 1/12/93

~~SECRET~~ STATE 100123

~~SECRET~~ LONDON FOR HOLLAND GEMETRA FOR CO MISSION

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E.C. 12794: POC1: 0404
 TAC1: POC1, RMC [000, 1]
 SUBJECT: WUPF [CICITARY RESEARCH REFORM 1:10 1000]
 AND ASSASSIN, RACHA 20 1997: WUPF [AM 75-1667] AND CCC

EX. STATE INCOME TAX

1. ~~SECRET~~ - [E:14] [E:]

2. Tactful advantage of a PRELIMINARY SCHEME: HELDING
MAYBE 25, UNDER SECRETARY ACCORDANCE MADE A MESSAGE TO
LEADY AMBASSADORIAL IN-ANALYST ON THE LEADY ATTEMPT TO SMALL
CONVOLUTIONS LIST ELECTRICAL COMMENTS FROM TOP U.S.
HANDLING IN-ANALYST A TEST OF THE PRELIMINARY STATEMENT ON
THE ISSUE PAGE 01, ACCORDANCE QUOTE THE FOLLOWING POINTS,
WHICH OR-ORANDED IN-ANALYST AS A NEW PAPER.

-- AS YOU ARE AWARE, BRITISH GOVERNMENT, WITH THE HELP OF U.S. LAW ENFORCEMENT AGENCIES, STOPPED AN ATTEMPT BY A GOVERNMENT OF 1940 RECOGNITION TO BRING TO BEAR READY ELECTRICAL COMPONENTS OF U.S. ORIGIN.

-- THE ITEM IN QUESTION HAD A NUCLEAR WEAPON APPLICATION, ONE AS IN OUR POSITIONING CONTROL, BUT OUR POLICY IS NOT TO GRANT LICENSES FOR EXPORT OF WEAPONS BUT ITEMS TO BE USED. IN ANY CASE, NO LICENSES WERE APPROVED.

- 10261 DELETED FROM THE SOURCE -

-- I WOULD LIKE TO REITERATE OUR STRONG OPPOSITION TO
UNLAWFUL PROSECUTION. YOUR LEGAL ACTION HAS ONLY INCREASED
U.S. TRUST IN THAT'S SIGNIFICANT IN LIGHT OF THE FACT

-- WE REMAIN COMMITTED TO AN EFFORT TO IMPROVE RELATIONS
WITH IDEAS FOR OUR NATION'S BENEFIT, BUT THAT REQUIRES
DETERMINED EFFORTS ON YOURS PART. WE ARE DEEPLY
DISPLEASED THAT IDEAS HAS NOT CONSIDERED THE IMPLICATIONS
OF COMMITTING SUCH ACTIONS ON U.S. SOVER. WE WILL TAKE
WHATEVER ACTION IS REQUIRED TO ENSURE THAT THE LAWS OF THE
UNITED STATES ARE OBTAINED.

2. As a result of the fact that the employees have a feeling of unity and that the work was improved. According to the fact that we would not see the decrease in the number of employees. According to the fact that the administration has many more improved relations, but such incidents are not "common" on a farm."

4. Mr. Maslowski said he believed to the maximum capacity, he would have made a firm decision to improve relations with the U.S. However, there are certain obstacles about recent U.S. statements and actions, and he very hesitating because of its incompetence and security. Maslowski's opinion to avoid deterioration of the U.S. and Poland would be only as an expression of loyalty to the concept of the U.S. rules of national interest to Israel and encouragement of Jewish immigration to Israel. Mr. Maslowski said he will forward him because to his agreement, but he warned not to put "in doubt", including the smuggling incident, affect our mutual confidence. Maslowski responded that "inland" Israelis are not simple people. He view the incident with the greatest seriousness, and it is extremely dangerous for bilateral relations.

3. REFERENCE TO THE CCC PROGRAM RECORDS SAID HE WENT
1940. COOPERATION WITH AGRICULTURE'S INVESTIGATION INTO
THE PROGRAM. AL-REHMANI SAID HE WAS SPENT 75 YEARS OF
LIFE ON THE ISSUE. HE UNDERSTOOD THAT THE WERE THE

PROBABLE; SOME SALES OF CIGARS AT 25 CTS TO PER TEN OVER THE
WIDE MARKET PRICE, AS EVIDENTS FOR AFTER-SALES SERVICE, AND
IMPOSITION OF A STAMP TAX ON SOME SALES. THE HEAVY, HE
CONTINUED, WAS DISTRESSED AT THE FIRST, AS EITHER THE AGE
STUD CAPPED ON THERE IS CORRUPTION AMONG IDEAS
OFFICIALS. AL-MANAT ADMITTED THERE USED TO ASK FOR
AFTER-SALES SERVICE, STANDARD TRAFFIC IN HAND BUT
AL-MANAT HAS PUT A STOP TO IT, AND IT WILL NEVER HAPPEN
AGAIN. AS TO THE STAMP TAX, GROWER HAS ADMITTED THAT HE
SUPPLYER NEVER PAID IT.

6. Al-masrat said that if there are the problems, we should not let them affect economic relations. The 10th meeting of this year's CCC program will be the last meeting. If any of the problems recur, the program should be stopped. Al-masrat said he has delayed our request for a meeting until Iraqi officials on the problems. "It is waiting for you for a moment."

7. (CLASS) WILL BE MAKING THE SAME DECISION ON THE WORKER ISSUES, WITH THE FOLLOWING CHANGES TO THE 4TH MEMORANDUM MADE AFTER THE INDICEMENTS WERE OBTAINED.

.. FIRST TIC: "On Home of" appears "1" etc.

-- SECOND VIC. STATE OF "ONE PARTITIONED COUNTY IS
1947".

.. 1970 to: "Carrying the flag (1964) of revolution
1971 1972 1973 1974 U.S. 1975 1976 1977 1978 1979
1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040 2041 2042 2043 2044 2045 2046 2047 2048 2049 2050 2051 2052 2053 2054 2055 2056 2057 2058 2059 2060 2061 2062 2063 2064 2065 2066 2067 2068 2069 2070 2071 2072 2073 2074 2075 2076 2077 2078 2079 2080 2081 2082 2083 2084 2085 2086 2087 2088 2089 2090 2091 2092 2093 2094 2095 2096 2097 2098 2099 2100 2101 2102 2103 2104 2105 2106 2107 2108 2109 2110 2111 2112 2113 2114 2115 2116 2117 2118 2119 2120 2121 2122 2123 2124 2125 2126 2127 2128 2129 2130 2131 2132 2133 2134 2135 2136 2137 2138 2139 2140 2141 2142 2143 2144 2145 2146 2147 2148 2149 2150 2151 2152 2153 2154 2155 2156 2157 2158 2159 2160 2161 2162 2163 2164 2165 2166 2167 2168 2169 2170 2171 2172 2173 2174 2175 2176 2177 2178 2179 2180 2181 2182 2183 2184 2185 2186 2187 2188 2189 2190 2191 2192 2193 2194 2195 2196 2197 2198 2199 2200 2201 2202 2203 2204 2205 2206 2207 2208 2209 2210 2211 2212 2213 2214 2215 2216 2217 2218 2219 2220 2221 2222 2223 2224 2225 2226 2227 2228 2229 2230 2231 2232 2233 2234 2235 2236 2237 2238 2239 2240 2241 2242 2243 2244 2245 2246 2247 2248 2249 2250 2251 2252 2253 2254 2255 2256 2257 2258 2259 2260 2261 2262 2263 2264 2265 2266 2267 2268 2269 2270 2271 2272 2273 2274 2275 2276 2277 2278 2279 2280 2281 2282 2283 2284 2285 2286 2287 2288 2289 2290 2291 2292 2293 2294 2295 2296 2297 2298 2299 2300 2301 2302 2303 2304 2305 2306 2307 2308 2309 2310 2311 2312 2313 2314 2315 2316 2317 2318 2319 2320 2321 2322 2323 2324 2325 2326 2327 2328 2329 2330 2331 2332 2333 2334 2335 2336 2337 2338 2339 2340 2341 2342 2343 2344 2345 2346 2347 2348 2349 2350 2351 2352 2353 2354 2355 2356 2357 2358 2359 2360 2361 2362 2363 2364 2365 2366 2367 2368 2369 2370 2371 2372 2373 2374 2375 2376 2377 2378 2379 2380 2381 2382 2383 2384 2385 2386 2387 2388 2389 2390 2391 2392 2393 2394 2395 2396 2397 2398 2399 2400 2401 2402 2403 2404 2405 2406 2407 2408 2409 2410 2411 2412 2413 2414 2415 2416 2417 2418 2419 2420 2421 2422 2423 2424 2425 2426 2427 2428 2429 2430 2431 2432 2433 2434 2435 2436 2437 2438 2439 2440 2441 2442 2443 2444 2445 2446 2447 2448 2449 2450 2451 2452 2453 2454 2455 2456 2457 2458 2459 2460 2461 2462 2463 2464 2465 2466 2467 2468 2469 2470 2471 2472 2473 2474 2475 2476 2477 2478 2479 2480 2481 2482 2483 2484 2485 2486 2487 2488 2489 2490 2491 2492 2493 2494 2495 2496 2497 2498 2499 2500 2501 2502 2503 2504 2505 2506 2507 2508 2509 2510 2511 2512 2513 2514 2515 2516 2517 2518 2519 2520 2521 2522 2523 2524 2525 2526 2527 2528 2529 2530 2531 2532 2533 2534 2535 2536 2537 2538 2539 2540 2541 2542 2543 2544 2545 2546 2547 2548 2549 2550 2551 2552 2553 2554 2555 2556 2557 2558 2559 2560 2561 2562 2563 2564 2565 2566 2567 2568 2569 2570 2571 2572 2573 2574 2575 2576 2577 2578 2579 2580 2581 2582 2583 2584 2585 2586 2587 2588 2589 2590 2591 2592 2593 2594 2595 2596 2597 2598 2599 2600 2601 2602 2603 2604 2605 2606 2607 2608 2609 2610 2611 2612 2613 2614 2615 2616 2617 2618 2619 2620 2621 2622 2623 2624 2625 2626 2627 2628 2629 2630 2631 2632 2633 2634 2635 2636 2637 2638 2639 2640 2641 2642 2643 2644 2645 2646 2647 2648 2649 2650 2651 2652 2653 2654 2655 2656 2657 2658 2659 2660 2661 2662 2663 2664 2665 2666 2667 2668 2669 2670 2671 2672 2673 2674 2675 2676 2677 2678 2679 2680 2681 2682 2683 2684 2685 2686 2687 2688 2689 2690 2691 2692 2693 2694 2695 2696 2697 2698 2699 2700 2701 2702 2703 2704 2705 2706 2707 2708 2709 2710 2711 2712 2713 2714 2715 2716 2717 2718 2719 2720 2721 2722 2723 2724 2725 2726 2727 2728 2729 2730 2731 2732 2733 2734 2735 2736 2737 2738 2739 2740 2741 2742 2743 2744 2745 2746 2747 2748 2749 2750 2751 2752 2753 2754 2755 2756 2757 2758 2759 2760 2761 2762 2763 2764 2765 2766 2767 2768 2769 2770 2771 2772 2773 2774 2775 2776 2777 2778 2779 2780 2781 2782 2783 27

DEPARTMENT OF STATE

IS (FPC) CDR PC Date: 2/2/83

MR Cases Only: _____

EO Classifications _____

DECLASSIFY _____ TS authority to _____

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IN PART _____ () DOWNGRADE TS to () S or () C OADR

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EXA Exemptions _____

~~SECRET~~

Department of State

S/S-O
OUTGOINGON OF IN STATE 10-1-50
LET OF PRESIDENTIAL STATEMENTS 10/1/50

PAGE

0000000

THE ARREST OF ARABIS IN LONDON BRINGS HOME AGAIN THE ADMINISTRATION'S DEEP CONCERN ABOUT THE ISSUE OF NUCLEAR PROLIFERATION OF THE MIDDLE EAST. NUCLEAR PROLIFERATION, ALONG WITH THE PROLIFERATION OF CHEMICAL AND BIOLOGICAL WEAPONS AND INTERMEDIATE RANGE MISSILES, CONTINUES TO POSE SERIOUS THREATS TO U.S. INTERESTS, AS WELL AS THE INTERESTS OF OUR FRIENDS IN THE REGION. THESE PROBLEMS ONLY BECOME MORE COMPLICATED REGIONAL TENSIONS AND INTERNATIONAL SECURITY PROBLEMS.

WE AGAIN CALL UPON NUCLEAR SUPPLIERS TO EXERCISE SPECIAL RESTRAINT IN PROVIDING MATERIALS RELATED TO THE DEVELOPMENT OF NUCLEAR, CHEMICAL AND BIOLOGICAL WEAPONS AND INTERMEDIATE RANGE MISSILES IN THE MIDDLE EAST. FURTHERMORE, WE URGE ALL STATES IN THE AREA TO ADHERE TO

THE NON-PROLIFERATION TREATY. THIS IS A SIGNATURE OF THIS TREATY. ARABIS OFFICIALS ARE WELL AWARE OF OUR VIEW ON NUCLEAR PROLIFERATION WHEN HE WAS MADE CLEAR ON SEVERAL OCCASIONS.

5. FOR REASON THE ARABIS HAVE INFORMED US THEY PURPOSE TO COVER A MEETING OF THE ARABIS GROUP AT THE GO TO DISCUSS THIS ISSUE AS SOON AS POSSIBLE. YOU MAY DRAW ON THE SUBSTANCE OF THE U.S. DEPARTMENT AND THE PRESIDENT'S STATEMENT ON THESE DISCUSSIONS. 00000

Sandra Charles
National Security Council 001709
MEMORANDUM

AV
 cc: RTO

April 2, 1990

RE: U. S. Rice Exports to Iraq
 Agricultural Export Credit Guarantee Program (GSM-102)

I. ACTION REQUESTED

- A. The rice industry requests congressional assistance in obtaining USDA approval of a \$ 500.0 million GSM-102 export credit guarantee allocation for Iraq. This amount represents the balance of Iraq's FY 90 GSM-102 allocation. The first \$ 500.0 million was approved in December 1989. Virtually all of this amount has been contracted. USDA has withheld approval of the second allocation for the past several weeks pending announcement of indictments by an Atlanta federal grand jury. If there are substantive reasons for cancelling the GSM-102 program to Iraq, USDA should make an announcement now. If there are not, then USDA should proceed with the program's implementation as soon as possible. Further delay will have serious adverse consequences for the U. S. rice market.
- B. Key official: Mr. Richard Crowder, USDA Undersecretary for International Affairs and Commodity Programs.
- C. The rice industry urges defeat of legislative efforts (e.g. Berman sanctions amendment in the House) to mandate trade sanctions against Iraq that include denial of agricultural export credits and credit guarantees. Agricultural embargoes are ineffective and damaging to our national interests. It makes no sense to punish the Iraqi people by denying them credits to purchase food.

II. IRAQ--U. S. AGRICULTURAL EXPORT MARKET

- A. For the past several years, Iraq has utilized annually about \$ 1.0 billion out of total \$ 5.0 billion GSM-102 program.
- B. To date, all GSM-102 payments due have been made. Debt service is current. Iraq has been an exemplary GSM-102 customer.
- C. After Saudi Arabia, Iraq has second largest known oil reserves in the world. Daily oil exports are expected to double in near future from 3.0 to 6.0

- D. Current international debt, incurred as a result of the Iran/Iraq war, is considered relatively short term because of Iraq's ability to repay. Due to extensive oil income, high population growth rate, and ambitious national rebuilding program, Iraq is most lucrative market in the Middle East for a number of major U. S. economic sectors such as agriculture, energy, manufacturing, telecommunications, aviation, and services. Denial or export credit guarantees for purchase of U. S. agricultural commodities could jeopardize all markets for U. S. goods and services.
- E. Iraq is the 12th largest importer of U. S. agricultural products and the largest buyer of U. S. rice, importing more than twice the amount of the next largest buyer. For FY 90, following expected to be purchased under the GSM-102 program: Barley malt and hops; cotton; dry milk powder; feed grains; hides and skins; leather; lumber; planting seeds; poultry breeder stock; protein concentrates; protein meals; pulses; RICE; sugar; tallow; veg. oils; wheat; wood panel products; wood pulp; wool; and yeast.
- F. Curtailing U. S. rice access to Iraq through the GSM-102 program will result in losses of:
- | | |
|-------------------|-----------------------------|
| Volume: | 521,411 metric tons (MY 89) |
| Quality: | Long Grain (high quality) |
| Value: | \$ 201.0 million |
| % Comm. Exports: | 23% |
| Acres: | 355,000 |
| Rough Rice Value: | \$ 160.0 million |
- G. Long grain rice for Iraq is sourced from Arkansas, Louisiana, Missouri, Mississippi, and Texas. However, loss of Iraqi rice market would have a negative impact on price structure of the entire rice industry, California included.
- H. In order to meet food security requirements and maintain orderly delivery of rice, a basic food staple, Iraq must purchase rice at least six weeks in advance of delivery. Iraq must tender soon for May/June requirements. If it is unable to utilize the GSM-102 program for rice purchases, Iraq will buy from Thailand as was done in January 1990, when 90,000 metric tons were bought with Thai credits. Iraq, in frustration, will be forced to turn away from the United States rice market because of our inability to be a reliable seller.

III. ATLANTA GRAND JURY INVESTIGATION

- A. In the latter part of 1989, a federal grand jury was convened in Atlanta to investigate alleged transactional irregularities committed by the Atlanta branch of an Italian bank (BNL). Of the approximately \$ 3.0 billion worth of transactions scrutinized, about \$ 750.0 of GSM-102 program monies were reportedly involved.
- B. Majority of the grand jury's focus appears to be on banking irregularities. Initially, there were reported allegations about problems with GSM-102 high value commodities. Other than some technical and procedural issues, there do not appear to be any significant problems with procurement of bulk grains.
- C. Because of the secretive nature of the grand jury process, it has been virtually impossible to determine specific nature of charges and to separate rumor from fact.
- D. It is expected that indictments will be announced in the near future. However, this has been an expectation for the past four weeks.

IV. ARMS EXPORT CONTROL ACT VIOLATIONS

- A. Determining violations of the Arms Export Control Act by Iraqi citizens and others will be responsibility of the U. S. court system. Our judicial system can be expected to handle these cases just as effectively and thoroughly as it did cases involving other Middle Eastern countries for espionage (Israel) and illegal arms shipments (Iran and Egypt).
- B. These judicial issues, which are not germane to U. S. agricultural export programs and policies, should be separated from those impacting on approval of the GSM-102 program.

V. U. S. GOVERNMENT INTERAGENCY POSITIONS

- A. During the fall of 1989, there was intense debate among agencies regarding approval of Iraq's request for an FY 90 GSM-102 allocation of \$ 1.0 billion. State Department and National Security Council supported a decision favorable to Iraq. OMB and Treasury were opposed due to Iraq's creditworthiness. USDA's position appeared to be tempered by the Atlanta investigations. Efforts of the State Department, supported by critics of the Iraq

one-half of Iraq's requested allocation, or \$ 500 million. Judge Sofaer's group apparently determined that, while there were allegations of irregularities, there was no basis to deny Iraq's request. The balance of \$ 500.0 million was to be addressed at a later date after review of events in Atlanta.

- B. Present interagency positions regarding the \$ 500.0 million have not changed since the fall of 1989. Treasury is expected to be even more vehement in its opposition as it tries to impose some type of international management framework of Iraq's foreign debt.

VI. USDA POSITION

- A. USDA has statutory authority, with ADVICE of other involved agencies, to implement or not implement GSM-102 programs. The Department can ignore advice of other agencies if it so chooses.
- B. Regarding Iraq's GSM-102 program, Mr. Crowder's position is that USDA will not make any decision now because it is fearful of jeopardizing integrity of export credit guarantee programs. A decision will be made after the grand jury's Atlanta investigation are known. There is no time frame given as to when this will occur.
- C. Mr. Crowder's concerns are basically two-fold: legal and political. The latter seems to consist of congressional representations that appear to be anti-Iraqi in nature. Legal issues appear to be cloudy from an outside perspective.

VII. RICE INDUSTRY POSITION

- A. Since 1974, the Rice Council, The Rice Millers' Association, and individual companies have expended significant monies and man-hours to develop Iraq as the U. S. rice industry's premier rice market.
- B. To date, U. S. cooperatives, independent mills, and exporters have received or acquired inventories of rough rice for future sales to Iraq. Strategic business decisions regarding future sales must be made by involved companies within the next two weeks. They cannot afford to sit and wait for an undefined period.

- C. Liquidation of large rough rice inventories previously purchased for sale to Iraq would have a disastrous impact on 1990 rough rice prices (especially during the August-October harvest period), futures prices, and rice section of upcoming farm legislation.
- D. The rice industry needs a decision to be made NOW so that it can get on with business. If USDA is aware of any reason that would adversely impact on the GSM-102 program for Iraq and necessitate cancellation, the Department should inform the marketplace now. On the other hand, if technical irregularities exist, then USDA should move expeditiously, in cooperation with Iraqi authorities, to resolve such problems administratively.
- E. Regarding the Atlanta grand jury investigation, the Iraqi GSM-102 program, in principle, should not be judged guilty until proven innocent. We should not penalize the entire program for the irregularities of a few. We must remember that Iraq purchases 24 different commodities from the United States over a twelve month period. More than twenty-five state agencies are involved in procurement of these items.



GENERAL COUNSEL

DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

00C514

April 2, 1990

NOTE FOR TOM CONWAY
KEVIN BROSCHE ✓

Tom and Kevin,

Please supply comments, corrections, edits and
information.

Thanks.

Alan

Draft April 2, 1990

PRESS RELEASE

00C513

April, 1990 -- Under Secretary Richard T. Crowder announced today that the Department's Fiscal Year 1990 GSM-102 program for Iraq would be suspended at the current \$500 million level. The program ~~has been operating at an average \$1 billion level over the past 3 years.~~ *had been announced*

In late summer 1989, ~~outside media~~ *made unreported long* reports surfaced regarding allegedly unauthorized lending by the Atlanta agency of the Banca Nazionale del Lavoro (BNL) to Iraq. It appears that BNL had ~~loaned approximately \$3 billion to Iraq over time period.~~ *more than \$2* Of this amount, [\$800 million] of the BNL credits were extended in connection with the export of agricultural commodities under the GSM program. The Commodity Credit Corporation (CCC) issued credit guarantees, which cover credit financing up to three years, to U.S. agricultural exporters with contracts for sale to Iraq. These exporters assigned the CCC guarantees to U.S. domestic financial institutions, including BNL. Under the program, it was not BNL's credit that was guaranteed; rather, the CCC guarantees were provided for the benefit of U.S. exporters. *Cust*

Various Federal agencies, including the U.S. Attorney's office in Atlanta, have been investigating the BNL situation. USDA has been carefully monitoring and cooperating closely with those investigations, as well as conducting its own inquiry regarding the GSM program for Iraq. A number of questions have arisen as a result of our administrative review. These questions involve concerns regarding possible overpricing of shipments of agricultural commodities to Iraq, requests for additional services or benefits beyond those specified in the contract and certain fees or taxes imposed by the Government of Iraq [anything else?]. We have discussed these concerns with representatives of the Government of Iraq, including their Ambassador to the United States, and they have indicated their willingness to cooperate and provide information to resolve these concerns. We expect to continue to work with the Government of Iraq to answer the pending questions.

Under GSM-102, CCC provides guarantees that foreign purchasers in approved countries will pay for their purchases of U.S. agricultural commodities. Actual financing, or credit, is provided commercially by non-U.S. government lending institutions. As a guarantee program, the U.S. Government makes no outlays unless and until there is a default by the foreign purchaser. In the case of the GSM program for Iraq, there have been no U.S. Government outlays to date because the Iraqi purchasers are current with their repayment obligations to U.S. GSM exporters (and their assignee banks). In total, there is currently [\$2 billion] of GSM export credit guarantees outstanding to Iraq. These GSM credit guarantees are extended for a period of up to 3 years. Accordingly, this balance reflects [\$1 billion] extended in Fiscal Year 1987, [\$1 billion] in FY 1988, and [\$1 billion] in FY 1989 and \$500 million in FY 1990.

Given the uncertainties and open questions, however, we have advised the Iraqi Ambassador that the GSM program for Iraq will not be operated in FY 1990 at the higher level of prior years, but will remain suspended at the current \$500 million level. ~~Nonetheless~~ we continue to seek Iraq's cooperation in providing assistance in concluding our administrative review.

② Held out hope for FY 91 program

① emphasize USDA investigation - ~~not~~ don't look back



UNITED STATES
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

DATE: April 5 1990

TO: Alan Paul
General Counsel

TELEPHONE NO. 467-3357 FAX NO.

FROM: Kevin Brosch
IAA

TELEPHONE NO. 467-3540 FAX NO.

PAGES SENT (INCLUDING COVER SHEET):

REMARKS:
Draft of Proposed GS - Ac. This
being circulated to DIS/CC for

00C502

Questions and Answers on Iraq

Q. Can you give us a brief history of the GSM program's activity in Iraq?

A. Our program in Iraq began in FY at a level of \$ million and grew steadily until it reached \$ billion in FY 1988, a level that was continued in FY 1989. This year's program was \$ 500 million. About 20 commodities or commodity categories have been covered by the program which has been the second largest GSM program exceeded only by Mexico.

Q. Is the suspension of the program the result of recent political events?

A. No, the suspension is a result of a need to clarify what may be program irregularities that have come to light as a result of our own USDA investigation. Clearly, however, the political events do not help the situation.

Q. What has our market been in Iraq, and what has the credit program's role been in building that market?

A. Iraq's market for U.S. agricultural products has been built largely as a result of the credit program, given the foreign exchange constraints that Iraq must overcome in making cash purchases. Iraq has become our eighth largest market for farm products, and is currently our largest rice market as well as a major wheat market.

Q. Is the suspension connected with the Banca Lavoro affair?

A. Not idrectly. When that matter surfaced, we considered it only prudent to begin a careful review of this program, and considered various information that came to light during the course of other investigations of Banca Lavoro. Our officials discovered other possible improprieties that are not directly related. The Banca Lavoro situation does not directly affect our program since we guarantee the Iraqi risk only.

Q. Why did you do a program for Iraq at all this year knowing of the risk that there were program violations?

A. The initial information that came to light in the Banca Lavoro situation had no direct connection to our program although there was widespread speculation that something might be developed. Given Iraq's position as an important market, the prudent course was to proceed with a program sufficient in size to cover several months' purchasing. At the same time we launched our own examination of the Iraqi program. While we still have no proof of program abuses, the evidence that has developed that there may

000503

have been over-pricing or after sales services rendered, is such that we no longer think it would be prudent to enlarge the program.

- Q. Will there be a further program later in FY 1990 or in FY 1991?

A. This depends entirely upon the results of the discussions we have requested with the Iraqi side, and the guarantees that can be developed that abuses, if they occurred, will not recur. Given the current date, it is likelier that a credit program could be offered in FY 1991, than again during this year.

Q. What are the key suspicions in the administrative review you are conducting? Is the Government of Iraq itself, or are key Iraqi officials implicated?

A. The specific problems we need to clarify concern (1) unusually high unit prices which could, I repeat could, be evidence of kickbacks; (2) requests for after sales services from exporters; (3) application of import taxes which are contrary to program regulations. It is not clear at this time that there was any official involvement, however, most of the purchasing does go through official buying agencies in Iraq.

Q. Is Iraq cooperating in your investigation?

A. Yes. The Iraqi Government has assured us of their full cooperation and their intent to correct any proprieties.

Q. What will be the effect on U.S. agricultural exports?

A. Since U.S. exports to Iraq are heavily dependent on the credit program, there may be a sharp decline for the period during which the program is suspended. This is regrettable, but the protection of the integrity of the entire program is our paramount consideration. There is of course nothing to preclude cash purchasing by Iraq during what we hope will be a limited period.

Q. Was there any mis-use of the guarantees to cover military purchases?

A. There is absolutely no evidence to suggest this. The possible program abuses are of a financial nature.

Q. Is there risk to CCC of Iraq non-payment now that the program is suspended?

A. There is some risk of this, but again our paramount concern is the integrity of the program. It is our view, and we believe the Iraqi view, that the mutual long-term interest in this program and the trade it facilitates, is much more important than an interruption we hope will be temporary. [REDACTED]

001736

RUSH

Mr. Crowder:

RE; Iraq

1. Peabody in Alan Raul's office called saying that Alan Raul would like to know of any other changes/comments from the State Department. (12:30)

He would like to be aware of the changes.

2. Kelly Shipp stopped by to find out what we are going to do and when. ~~XXXXXXXXXX~~
~~XXXXXXXXXXXX~~ She must get back to the White House. (1:05)

She is concerned about the contact.
ARaul is suppose to be the contact and he is out of town today and tomorrow in Alaska.

If you want her to be the contact, let her know.

3. The attached fax is from State Dept.

k 4/5 - 1:15

001735

PROPOSED USDA STATEMENT ON GSM FOR IRAQ

USDA IS CONTINUING ITS ADMINISTRATIVE REVIEW, BEGUN SEVERAL MONTHS AGO, INTO POSSIBLE IRREGULARITIES IN TRANSACTIONS RELATING TO PAST GSM PROGRAMS WITH IRAQ. IRAQI AUTHORITIES ARE COOPERATING WITH USDA IN THE EFFORT AND A TEAM WILL TRAVEL TO BAGHDAD IN THE NEAR FUTURE TO CONTINUE THE DISCUSSIONS. DECISIONS ON A SECOND TRANCHE OF GSM CREDITS IN 1990 WILL AWAIT THE CONCLUSION OF THE ADMINISTRATIVE REVIEW.



United States Department of State

Washington, D.C. 20520

APR 10 1990

Dear Mr. Darman:

This letter forwards the State Department's views on the Berman bill imposing sanctions on Iraq, as you requested.

The bill imposes open-ended sanctions against Iraq without linking them to any policy objective. Thus it would eliminate any Presidential flexibility in dealing with an important but difficult country, without specifically furthering any U.S. national interests.

The President has made clear his concern at the recent Iraqi attempts to smuggle capacitors -- with possible use in nuclear weapons -- out of the U.S. He has made clear his outrage at the irresponsible threats issued by Iraq's President Saddam Hussein. There have always been significant U.S. concerns about Iraqi behavior, and in fact the U.S. Government has long imposed many of the measures the legislation would mandate. The State Department generally prohibits the sale or transfer of U.S. Munitions List items to Iraq. Fifty chemicals identified as potentially usable in chemical weapons programs are prohibited for export to Iraq. Items on the Commodity Control List deemed likely to aid Iraq's nuclear, missile, or other proliferation programs are denied.

Of the other sanctions envisioned by the bill, we note that Iraq is one of the largest markets for U.S. agricultural exports. The primary objective of our agriculture credit programs with Iraq has been to increase sales of U.S. farm products abroad. This GSM program, which has run about \$1 billion annually in recent years, provides credit guarantees to U.S. exporters of agricultural commodities. It has been the strong and repeated position of the Administration not to use food as an economic weapon of foreign policy through the imposition of embargoes on agricultural exports, or otherwise to place limits on our export programs for political purposes.

The short-term U.S. Export-Import Bank credit insurance is intended to promote the export of U.S. industrial goods. On January 17 President Bush signed a waiver to the FY 89 Foreign Operations Appropriations Act to enable this program to continue on national interest grounds.

The Honorable
Richard Darman,
Director,
Office of Management and Budget.

- 2 -

Regarding U.S. votes in International Financial Institutions such as the IMF, which seeks to support a stable, market-oriented economy, the United States has traditionally tried to avoid politicization of the IMF, which would undermine the Fund's technical and monetary character. By basing IMF actions on political criteria, the United States would create a precedent others would inevitably try to exploit in ways inimical to U.S. interests. For example, important U.S. allies such as Israel could be subject to similar efforts by other countries. Such politicization would divert the IMF's attention from pressing needs in the international economic system, including debt strategy and restructuring of Eastern Europe. In addition, it is the opinion of the Department of Justice that legislation mandating U.S. votes in International Financial Institutions would be unconstitutional.

The State Department opposes the virtually total economic embargo of Iraq which would result from this Bill. The President needs flexibility in dealing with Iraq on such important issues as the Arab-Israeli Peace Process, in which Iraq has the capability to play a positive -- or negative -- role. The Administration maintains an active review of our policy towards Iraq with a view towards assessing how best to further our interests in this thorny bilateral relationship. The Administration's approach to Iraq has been to deal firmly with problems as they arise within the context of broad, many-faceted relations. Imposition of rigid, legislated sanctions will not support vital U.S. interests in the region, and might well undercut important U.S. objectives.

Experience has shown sanctions are most effective when imposed multilaterally. At this point our allies are not contemplating sanctions against Iraq. Any sanctions imposed would therefore be symbolic only, with the costs borne by the United States.

For the above reasons, the State Department opposes the Berman bill.

Sincerely,

151

Janet G. Mullins
Assistant Secretary
Legislative Affairs

584

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UNCLASSIFIED

NATIONAL SECURITY COUNCIL
WASHINGTON D C 20508

20458

April 11, 1990

ACTION

MEMORANDUM FOR WILLIAM SITTMANN

THROUGH: RICHARD N. HAASS

FROM: SANDRA CHARLES

SUBJECT: NSC/Deputies Committee Meeting on Iraq

SIGNED

Attached is a memorandum for agencies announcing the April 16 NSC/Deputies Committee meeting, and providing a proposed agenda.

RECOMMENDATION

That you sign the memorandum at Tab I.

Attachments

Tab I Memo to Counterparts
Tab A Agenda

10/13/92
10/13/92
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NATIONAL SECURITY COUNCIL
WASHINGTON D C 20508

April 12, 1990

MEMORANDUM FOR MR. CARNES LORD
Assistant to the Vice President
for National Security AffairsMR. STAPLETON ROY
Executive Secretary
Department of StateMS. EMILY L. WALKER
Executive Secretary
Department of TreasuryCOL GEORGE P. COLE, JR.
Executive Secretary
Department of DefenseMR. JOSEPH S. CASPER
Director of Executive Secretariat
Department of CommerceBGEN THOMAS E. WHITE, JR.
Executive Assistant to the Chairman
Joint Chiefs of StaffMR. H. LAWRENCE SANDALL
Executive Secretary
Central Intelligence Agency

SUBJECT: NSC/Deputies Committee Meeting on Iraq (S)

There will be a meeting of the NSC/Deputies Committee on Monday, April 16, at 3:00 p.m.* in the White House Situation Room to discuss U.S. policy options for Iraq based on recommendations from the April 12 Policy Coordinating Committee meeting. An agenda for the meeting is attached. (S)

Please notify my office of your agency's participants (principal plus one) for this meeting. (U)

Declassification Authority: 1a/13/92
Under provisions of E.O. 12958
by G. Van Laster, National Security Council


William F. Sittmann
Acting Executive Secretary
Attachment
Tab A Agenda

*Please note change in time

cc: Andy Card

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20458

THE NSC/DEPUTIES COMMITTEE MEETING

DATE: April 16, 1990
 LOCATION: White House Situation Room
 TIME: 4:00 - 5:00 p.m.

IRAQ

Agenda

- | | | |
|------|---|--------|
| I. | Intelligence Update | CIA |
| II. | Review of U.S.-Iraqi Programs and
Policy Options | State |
| III. | Summary | Robert |

Declassified on: 10/13/92
 under provisions of E.O. 12958
 by D. Van Tassel, National Security Council

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United States Department of State
Washington, D.C. 20520

DISCUSSION PAPER FOR IRAQ PCC: ~~CONFIDENTIAL~~**IRAQ: PROBLEMS AND SOLUTIONS**

Summary: This paper summarizes the current problem with Iraq and current export controls. It then presents a proposal for a package of new export controls built on the work of other nations. In essence, the idea is to create a Country Group X for countries that have used or threatened to use chemical or biological weapons since (date to be determined). Iraq would be the first nation on the list. The export controls in Country Group X would be targeted on the chemical industry and are narrow in scope, but have a basis for international support.

Also in the paper is a plan of action asking the PCC to task the CBW Licensing Working Group (Chaired by State/EB) to develop a final draft of the proposal within 14 days.

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What Further Action is Possible?

It is possible to expand Foreign Policy Controls on Iraq through use of Section 6 of the EAA. Further, existing contracts could be severed under Section 6 if the President determined there had been a breach of the peace.

Considerations:

- If we expand controls, they should be a 'targeted package, aimed at the chemical industry, the specific problem sector
- As much as possible, the controls should be effective, not simply symbolic;
- Where possible, controls should take into account measures already enacted by other nations. This will help build a foundation of international support;
- Denial of all national security control items is probably too broad and ineffective (due to foreign availability and its effect on innocent sectors).
- Denial of all products (pvc pipes, floppy disks, etc) to the chemical industry is too broad (due to foreign availability)

Suggested Option:

Expand chemical controls along the following lines:

Create a Country Group X for countries that have used or threatened to use chemical or biological weapons since (date to be determined). Iraq would be the first nation on the list, perhaps also Libya, Iran, Syria.

(a) Require a license for national security controlled equipment to chemical manufacturing facilities;

(b) Require a license for the export of chemical manufacturing equipment, using existing lists from Germany and Canada as preliminary discussion models, as well as the watch list of the Australian Group.

(c) Require a license for the export of chemical manufacturing technical data, using German concepts as models.

(d) Make it unlawful for a US citizen to engage in activities with Iraqi chemical industries when there is a reasonable expectation that the enterprise will be used for chemical warfare;

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(e) After developing our own list of what needs to be controlled, but before amending the regulations, approach the Australian Group members and encourage them to expand their existing equipment controls or warning lists so as to require licenses to countries who have threatened or used chemical weapons within the given time frame.

Note: Some countries may be reluctant to impose export licensing regulations; however, may be willing to use their good offices with industry to inhibit such sales.

Pros and Cons

-- The Australia Group has already agreed that equipment sales are a problem and thus agreed on voluntary guidelines (warning lists) for such sales;

-- Germany and Canada are major suppliers of equipment, so using their controls as models will mean our controls are not purely symbolic; but will have international support;

-- Japan, Italy and the Netherlands and other nations regularly consult with their industry on equipment controls and in certain cases have warning lists. This move may encourage them to extend their efforts to control lists, at least to nations who actually threaten or use chemical weapons.

-- The target of these controls is very narrow, hence impact on US industry will be slight;

-- Other manufacturing nations do not control this equipment, so foreign availability is still a problem;

-- Some of the equipment being proposed for control may be quite general to civil manufacturing, so for the controls to be effective, the producers of this equipment should be as much as possible limited to the western industrial powers.

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How to proceed from here

-- The PCC should task the Chemical-Biological License Working Group (LWG) (Chaired by State/EB) to set up an interagency technical task force that will recommend to PCC specifically what controls should be imposed. (The normally reports to the PCC on Non-Proliferation on US domestic CBW export controls.)

-- The LWG should be asked to complete its work in two weeks.

-- Once the PCC has received the recommendations of the LWG and decided on what controls ought to be, the Australian Group members (and other appropriate nations) should be approached with a view towards gaining their support along the same lines. (note: these controls would only effect exports to nations listed in Country Group

-- After completion of the bilateral effort, the USG would take into account the reactions of the other governments and then take whatever appropriate regulatory action is needed

Instructions to the LWG

By April 27:

Craft a list of chemical industry equipment and technology that is useful in the production of chemical warfare agents. (the equipment need not be limited to CW production);

As much as is practical, choose items already under control by other governments, especially members of the Australian Group; (Canadian and German lists may be useful)

Except when a compelling reason can be presented, do not recommend for control equipment or technology that is so widely available that export controls would be meaningless except as a symbol.

Cite what regulations or laws would have to be amended or created.

Suggest arguments to be used with friendly governments in order to convince them to take similar measures.

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Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

12 April 1990

Iraq: No End in Sight to Debt Burden { }

Summary

Iraq faces serious problems servicing its foreign debt. Baghdad is unlikely to begin paring down its \$45 billion debt any time soon because it considers most debt repayment a low priority in favor of spending on strategic military and civilian projects, and it is incurring new debt.

- o *Despite a dismal repayment record, Iraq will probably continue to secure debt relief--including limited new credits--from most of its creditors, who have little other choice if they hope to receive any repayment or compete in the potentially lucrative postwar Iraqi market.*

Debt remains the major constraint to Iraq's postwar economic recovery.

- o *Debt payments will siphon off financial resources well into the 1990s.*
- o *Although Baghdad will try to insulate military and oil projects from financial constraints, its poor repayment record will restrict its access to new financing of the magnitude needed to fund many reconstruction projects and to increase imports enough to spur growth in nonoil sectors.*

Baghdad probably wants to maintain access to credit guarantees available from the United States despite recent political strains in the relationship. Any loss of these guarantees would jeopardize adequate servicing of about \$2 billion in Iraqi debt backed by the United States. Baghdad would probably not suspend payments if Washington refused to release the remaining \$500 million of \$1 billion in CCC credit guarantees allocated to Iraq for FY1990 but almost certainly would if the entire CCC program were cancelled or seen to be politically dead because of Congressional opposition.

* * * * *

This memorandum was prepared by
South Asian Analysts.

Office of Near Eastern and

From Richer to Poorer

Iraq's extensive use of foreign loans since 1982 has transformed it from one of the Third World's richest countries and net creditors into one of its problem debtors. The accumulation of debt stems from President Saddam Husayn's decision to continue pursuing an ambitious economic development program despite the outbreak of war with Iran in 1980. Iraq boosted civilian spending while military expenditures rose and oil exports fell sharply because of the war. This "guns and butter" policy rapidly drained Iraq's foreign assets.

In response to the worsening financial situation, Baghdad adopted domestic austerity measures and began borrowing heavily from abroad in 1983. It obtained more credits and credit guarantees from foreign governments, commercial banks, and private firms to finance imports—including some military equipment—and projects. We estimate Iraq's foreign debt increased to about \$45 billion by the end of 1989. Its Persian Gulf allies provided additional wartime financial assistance, mostly oil sold on Baghdad's behalf that is unlikely to be repaid.

Iraq has experienced payment problems since 1983 that have forced it to reschedule the bulk of payments due annually—including short-term credits, interest payments, and previously rescheduled debt—and accumulate large arrears. It has negotiated debt rescheduling agreements on a bilateral basis in an effort to play creditors off against each other and obtain concessional repayment terms. Debt servicing problems climaxed in 1986, when world oil prices plummeted and large debt payments fell due. Iraq's already dismal payment record worsened, causing creditors that had not already cut off credit lines to do so and forcing Baghdad to scramble to pay for essential civilian imports.

Debt Problems Persist in Postwar Period

Saddam's policy is to treat most debt servicing as a low priority in favor of reconstructing the economy, improving depressed living standards, and maintaining high military spending. Press reports indicate the regime has embarked on a \$37 billion multiyear investment plan for postwar reconstruction and development of industry and infrastructure. Baghdad has spent several billion dollars since the August 1988 cease-fire constructing oil export facilities, expanding port facilities, repairing damaged industries, and rebuilding the cities of Al Basrah and Al Faw. It also boosted civilian imports last year by nearly 20 percent to the highest level since 1982 to help meet pent-up consumer demand and quiet popular grumbling. Although imports of military materiel were reduced last year, we believe the regime diverted most if not all of these savings to the development of its own military industries. The acquisition of new financing for postwar projects and imports has complicated debt servicing woes because most of these credits are short-term, adding further burden to Iraq's heavy repayment schedule in the next two years.

We estimate Baghdad met only about 20 percent of its principal payments in principle and interest payments due in 1989 despite a 30-percent rise in oil revenues for the year. It rescheduled the debt and is trying to pay the arrears.

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to reschedule remaining payments that were due to other creditors in 1989, according to press reporting. To conserve foreign exchange, Baghdad used oil to repay debt to several major creditors last year. Although we estimate it repaid more in 1989 than the year before, it did so in most cases to unlock new credits, thus preventing a net reduction in its debt.

Baghdad continues to repay its debt on a selective basis, giving priority to suppliers of key goods or new credits as well as to important political allies:

- o It generally has made prompt payments for important oil projects,
- o The United States has received timely debt payments, mostly because it has provided significant new agricultural credit guarantees since 1983.
- o Iraq has granted priority in recent years to repaying its debt to Jordan--because of its gratitude for Jordanian support during the war as well as concern about Amman's serious economic problems.

In contrast, major creditors generally have had to bear the brunt of Baghdad's debt servicing problems.

Iraq's persistent debt servicing problems have restricted severely its access to new loans. Most commercial banks remain unwilling to extend unsecured loans to Baghdad. Several governments--in an effort to promote exports--have agreed to guarantee more trade and project financing since the cease-fire, giving Iraq access to about \$1.5 billion in financing last year.¹ Most of these credits are short-term, however, and contingent upon repayment of old debt, allowing Baghdad to merely roll over its debt to some creditors.

Outlook

We believe debt problems will remain the major constraint to Iraq's postwar economic recovery. Debt payments will siphon financial resources away from more productive uses well into the 1990s. Although we believe the regime will try to insulate high-priority military and oil projects from its financial constraints, its poor debt servicing record will restrict access to new financing of the magnitude needed to fund many reconstruction projects and to increase imports of raw materials and equipment enough to spur growth in nonoil sectors.

¹ Nearly all of the government credits and credit guarantees available to Iraq are tied to the purchase of goods and services from firms in these countries.

Iraq will probably not begin paring down its debt for several years. Repayment of most old debt will remain a relatively low priority in favor of spending on strategic military and civilian projects, particularly in view of the regime's confidence that it can secure concessions from its creditors. In addition, Baghdad will incur new debt as it obtains financing for reconstruction projects and higher levels of imports. We believe it will try to reschedule during the next few years.

Despite its dismal repayment record, we believe Baghdad will continue to secure debt relief in the form of reschedulings and limited new credits from most of its creditors.

- o Most creditors probably realize that providing such concessions is the most effective way of eliciting at least some repayment of old debt from Iraq.
- o Many creditor governments are heavily dependent on oil imports and want to maintain good relations with Iraq, which possesses the second largest proved oil reserves in the world.
- o Many governments are likely to supply a limited amount of new credits or credit guarantees because they are under pressure from domestic firms anxious to participate in this potentially lucrative market.

We believe competition between government creditors to help their firms gain a foothold in the Iraqi market will continue to discourage them from banding together to force Baghdad to negotiate debt accords on a multilateral basis—as most debtors do—except in the unlikely event that Iraq ceases servicing its debt altogether.

Implications For the United States

Although ties with Washington have been damaged by several recent events, Baghdad probably wants to maintain access to credit guarantees available from the Commodity Credit Corporation (CCC) and Eximbank. Iraq relies on the CCC program, in particular, to import a significant amount of food and other agricultural commodities on credit.

The loss of the CCC program would lead Iraq to seek agricultural goods from alternate suppliers willing to sell on credit. Although few individual countries would be likely to supply new credits to Baghdad at a level commensurate to the CCC any time soon, Iraq would probably be able to access smaller credit facilities available from several countries.

Any loss of US credit guarantees would jeopardize continued adequate servicing of about \$2 billion in Iraqi debt backed by the United States. We believe Baghdad would continue to make repayment to Washington a priority only if it believed doing so would help restore the credits in the short term. If Iraq believed there was no possibility for new credits, the United States would lose its special repayment status, in our judgment. Baghdad would probably not suspend payments if Washington refused to release the remaining \$500 million of \$1 billion in CCC credit guarantees allocated to Iraq for FY 1990 but almost certainly would if the entire CCC program were cancelled or seen to be politically dead because of Congressional opposition.

US-Iraqi Commercial Relations

The provision of US credit guarantees to Iraq has buoyed the substantial increase in bilateral trade since 1983. The extension of \$4.7 billion in credit guarantees by the CCC in 1983-90 has helped Iraq become the largest Middle Eastern market for US agricultural goods and a major world market as well. Substantial agricultural sales—which comprise about 85 percent of US sales to Iraq—have helped make Washington a major source of Baghdad's civilian imports. Iraq has also utilized \$200 million in short-term credit guarantees available from Eximbank since 1987.

US imports from Iraq have also increased significantly. US purchases of Iraqi oil have jumped from about 80,000 b/d in 1985-87 to 675,000 b/d so far in 1990—eight percent of net US oil imports.

Iraq has pursued closer bilateral commercial ties because it wants to increase its economic importance to the United States in hopes of offsetting what Baghdad regards as Iran's greater geopolitical value to Washington. In addition, the Iraqis have high regard for US goods and technology. To encourage stronger ties, Baghdad has:

- o Treated Washington as a favored creditor

Iraq also gave extensive publicity to the US pavillion at the annual Baghdad Trade Fair last November, including the unprecedented visit of Iraqi Deputy Prime Minister Sadun Hammadi and two other ministers to the pavillion.

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ANNEX I
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**ANNEX II
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SUBJECT: Iraq: No End in Sight to Debt Burden []

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Reviewed by: *Scott E. Zoiss* *2/10/92*

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TAGS PREL 12
SUBJECT: TENSIONS IN U.S. - IRAQI RELATIONS DEMARCHÉ

1. SECRET - ENTIRE TEXT.

2. IRAQI ACTIONS IN RECENT WEEKS AND MONTHS HAVE CAUSED A SHARP DETERIORATION IN U.S. - IRAQI RELATIONS. IRAQ WILL BE ON A COLLISION COURSE WITH THE U.S. IF IT CONTINUES TO ENGAGE IN ACTIONS THAT THREATEN THE STABILITY OF THE REGION UNDERMINE GLOBAL ARMS CONTROL EFFORTS AND FLOUT U.S. LAWS.

3. AMBASSADOR SHOULD APPROACH GOI AT AN APPROPRIATELY SENIOR LEVEL TO REVIEW IRAQI BEHAVIOR OVER THE LAST SIX

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MONTHS ALONG THE LINES OF PARA 4. WE WILL BE MAKING THE SAME POINTS TO AMBASSADOR AL-MASHAT IN WASHINGTON.

4. BEGIN TEXT:

-- LAST OCTOBER, WHEN FOREIGN MINISTER AZIZ MET SECRETARY BAKER, THE TWO SIDES COMMITTED THEMSELVES TO WORK FOR AN IMPROVED LONG TERM RELATIONSHIP. AS YOU WILL RECALL BOTH

GOVERNMENTS BELIEVED THERE WAS REASON TO CONTINUE AND WHERE POSSIBLE EXPAND COOPERATION THAT HAD GROWN BETWEEN US.

-- IRAQ HAD ENDED ITS MILITARY SUPPORT FOR GENERAL AOUN HAD PARTICIPATED IN CHEMICAL WEAPONS DISARMAMENT CONFERENCES AND WAS DISCUSSING DEMOCRATIC AND ECONOMIC REFORMS. IN SHORT IT APPEARED THAT IRAQ WAS ASSUMING THE ROLE OF A MAJOR REGIONAL POWER IN A RESPONSIBLE WAY AND THE UNITED STATES WAS PREPARED TO RECOGNIZE THAT AND WORK WITH IRAQ WHERE PROBLEMS REMAINED.

-- IN FACT UNFORTUNATELY IN THE TIME SINCE THAT MEETING THERE HAS BEEN A SERIES OF DISAPPOINTMENTS WHICH HAVE RAISED REAL CONCERNS ABOUT IRAQI INTENTIONS AND HAVE REDUCED SUPPORT IN THE U.S. FOR THE RELATIONSHIP.

-- IMMEDIATELY AFTER MEETING WITH ASSISTANT SECRETARY KELLY, PRESIDENT SADDAM HUSSEIN PUBLICLY ATTACKED THE U.S. PRESENCE IN THE GULF. AS IRAQ KNOWS, THE U.S. HAS MAINTAINED THAT PRESENCE FOR MORE THAN FORTY YEARS, AND WE INTEND TO REMAIN IN SUPPORT OF OUR INTERESTS AND OUR FRIENDS IN THE REGION. IRAQ HAS PREVIOUSLY ACKNOWLEDGED THE CONTRIBUTIONS THE U.S. NAVAL PRESENCE MADE TO REGIONAL

STABILITY AND ENDING THE IRAN-IRAQ WAR. AFTER PRESIDENT HUSSEIN'S SPEECH WE ASKED FOR AND HAVE NOT YET RECEIVED

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 THE OFFICIAL IRAQI POSITION.

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-- AS OUR HUMAN RIGHTS REPORT POINTED OUT, IRAQ HAS AN ABYSMAL HUMAN RIGHTS RECORD. DESPITE THE REASSURANCES THE GOVERNMENT OF IRAQ HAS GIVEN US, WE HAVE SEEN ONLY SLIGHT IMPROVEMENT IN IRAQ'S RECOGNITION OF BASIC HUMAN RIGHTS. HUMAN RIGHTS WILL CONTINUE TO BE A MAJOR FACTOR IN OUR RELATIONSHIP. WE ARE NOT SEEKING TO INTERFERE IN IRAQ'S DOMESTIC SITUATION, BUT WE WILL SPEAK OUT JUST AS WE DO WORLDWIDE ON BEHALF OF PRINCIPLES WE HOLD DEAR.

-- WE ARE DISTURBED BY CERTAIN ASPECTS OF IRAQ'S DEALINGS WITH THE IRAQI-AMERICAN COMMUNITY, INCLUDING ACTIVE COLLUSION WITH A MAN NOW UNDER INDICTMENT FOR A MURDER CONSPIRACY. THE ACTIVITIES OF AN IRAQI DIPLOMAT AT THE UN WENT BEYOND ALL ACCEPTABLE BOUNDS AND RAISED QUESTIONS ABOUT IRAQ'S WILLINGNESS TO OBSERVE DIPLOMATIC NORMS.

-- THE CLANDESTINE ATTEMPT BY ELEMENTS OF THE IRAQI GOVERNMENT TO SMUGGLE MUNITIONS-LIST CAPACITORS ALSO SHOWED FLAGRANT DISREGARD FOR OUR LAWS. IRAQ KNEW NO EXPORT LICENSE WOULD EVER BE GRANTED FOR THESE ITEMS. IRAQ KNEW ITS AGENTS NEVER APPLIED FOR A LICENSE.

-- IN ADDITION THE SMUGGLING OF MILITARY CAPACITORS WELL SUITED FOR NUCLEAR WEAPONS APPLICATIONS CALLS INTO QUESTION IRAQ'S WILLINGNESS TO LIVE UP TO ITS NPT COMMITMENTS. IRAQ HAS A TREATY COMMITMENT NOT TO SEEK NUCLEAR WEAPONS. WE EXPECT IRAQ TO LIVE UP TO THAT COMMITMENT. IRAQ SHOULD AVOID ACTIONS SUCH AS COVERT ATTEMPTS TO ACQUIRE NUCLEAR COMMODITIES WHICH RAISE DOUBTS ABOUT ITS NUCLEAR INTENTIONS AND COMMITMENT TO THE TREATY.

-- SIMILARLY PRESIDENT SADDAM HUSSEIN'S APRIL 1 SPEECH CALLED INTO QUESTION IRAQ'S COMMITMENTS ABOUT THE USE OF

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CHEMICAL WEAPONS.

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-O IRAQ HAS A COMMITMENT TO THE 1925 GENEVA PROTOCOL ON CHEMICAL WEAPONS. WHICH PROHIBITS THE FIRST USE OF CHEMICAL WEAPONS.

-O IN THE WAKE OF IRAQ'S USE OF CW ON IRAQI KURDS. YOUR FOREIGN MINISTER REAFFIRMED IRAQ'S COMMITMENT TO THAT PROTOCOL.

-O PRESIDENT SADDAM'S SPEECH IMPLIED IRAQ WILL USE CHEMICAL WEAPONS TO RESPOND EVEN TO A CONVENTIONAL ATTACK A VIOLATION OF THE PROTOCOL.

-- WE WANT TO SEE AN END TO THE NON-CONVENTIONAL ARMS RACE IN THE MIDDLE EAST.

-- LAST BUT NOT AT ALL LEAST WE ARE CONCERNED ABOUT THE IMPACT OF IRAQ'S DECISION TO PLACE MISSILE LAUNCHERS AT H2 IN WESTERN IRAQ. THIS NEW INSTALLATION REPRESENTS A POTENTIAL THREAT TO A HUGE PART OF THE REGION -- INCLUDING OUR OWN NATO FORCES IN TURKEY.

-O WE NOTE IRAQ'S CLAIMS THAT THE INTENT IS DETERRENCE. BUT TAKEN TOGETHER WITH THE QUESTIONS RAISED ABOUT IRAQI INTENTIONS CONCERNING CHEMICAL AND NUCLEAR WEAPONS MANY OBSERVERS FIND THIS DEPLOYMENT DEEPLY WORRYING.

-O THE DEPLOYMENT HAS ADDED TO REGIONAL INSTABILITY.

-- WE WANT ONE THING VERY CLEARLY UNDERSTOOD HOWEVER: AS

CONCERNED AS WE ARE ABOUT IRAQ'S CHEMICAL NUCLEAR AND MISSILE PROGRAMS WE ARE NOT IN ANY SENSE PREPARING THE WAY FOR A PRE-EMPTIVE MILITARY UNILATERAL EFFORT TO ELIMINATE THESE PROGRAMS.

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-O WE CONDEMNED THE 1981 RAID, AND WOULD DO SO AGAIN TODAY. WE ARE TELLING ISRAEL SO. THERE IS NO GREEN LIGHT.

-- NEVERTHELESS, YOU MIGHT WANT TO CONSIDER WAYS TO DEFUSE TENSIONS WITH ISRAEL POSSIBLY BY OPENING AN INDIRECT LINE OF COMMUNICATIONS AS OTHER STATES IN THE AREA HAVE DONE. WE WOULD BE PLEASED TO FACILITATE THIS.

-- IRAQ IS NOW A MAJOR REGIONAL POWER AND SHOULD ACT IN THE RESPONSIBLE WAY SUCH A ROLE REQUIRES. AT A TIME WHEN THE U.S. AND THE SOVIET UNION ARE METHODICALLY DIVESTING THEMSELVES OF WEAPONS OF MASS DESTRUCTION IRAQ'S THREATS TO USE THESE SYSTEMS HAVE BECOME A MAJOR IMPEDIMENT TO THE KIND OF RELATIONSHIP WITH THE U.S. THAT IRAQ SAYS IT WANTS.

-- YOUR GOVERNMENT MUST TAKE SOME CONCRETE STEPS PARTICULARLY IN AREAS INVOLVING HUMAN RIGHTS AND ILLEGAL PROCUREMENT ACTIVITIES TO ADDRESS THESE CONCERNS AND ACT TO REDUCE TENSIONS. WITHOUT SUCH MEASURES ON YOUR PART WHAT LITTLE SUPPORT THAT IS LEFT IN THE U.S. FOR IRAQ MAY FURTHER ERODE.

5. YOUR INTERLOCUTOR MAY RAISE IRAQ'S PROPOSAL TO FOR A NUCLEAR AND CW-FREE MIDDLE EAST. YOU MAY DRAW ON THE FOLLOWING POINTS TO RESPOND:

- THE U.S. IS CONCERNED ABOUT THE PROLIFERATION OF BOTH NUCLEAR AND CHEMICAL WEAPONS IN THE MIDDLE EAST AND WE ARE WORKING TO RESOLVE BOTH ISSUES.

- THE U.S. SUPPORTS UNIVERSAL ADHERENCE TO THE NPT

(INCLUDING ISRAEL) AND THE ESTABLISHMENT OF A NUCLEAR FREE ZONE IN THE MIDDLE EAST.

-- WE ARE WORKING SEPARATELY TOWARDS A GLOBAL BAN ON THE PRODUCTION OF CHEMICAL WEAPONS. IN THE PARIS DECLARATION

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LAST YEAR IRAQ WAS ONE OF THE MANY COUNTRIES WHICH AGREED TO BECOME A PARTY TO THE BAN WHEN IT IS CONCLUDED.

-- WE DO NOT BELIEVE THE ISSUE OF BANNING CHEMICAL WEAPONS SHOULD BE LINKED IN ANY WAY TO THE SEPARATE NUCLEAR ISSUE.

6. IF THE IRAQIS RAISE THE ISSUE OF THE SECOND TRANCHE OF THE FY 90 CCC PROGRAM, YOU MAY DRAW ON THE FOLLOWING POINT:

-- NO DECISION HAS BEEN TAKEN ON THE SECOND TRANCHE OF THE CCC PROGRAM FOR THIS FISCAL YEAR. THE MATTER IS UNDER REVIEW. BAKER

~~SECRET~~



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

001:00

April 16, 1990

His Excellency
Mohamed Sadiq Al-Mashat
Ambassador of the Republic
of Iraq
Washington, D.C. 20036

Dear Mr. Ambassador:

At the meeting on March 27 in my office, we conveyed to you the interest of the U.S. Department of Agriculture and the Commodity Credit Corporation (USDA\CCC) to meet as soon as possible with appropriate representatives of your country to discuss a number of issues regarding past and current conduct with respect to the Export Credit Guarantee Program (GSM-102) for Iraq. A similar request was conveyed in Baghdad on March 25 to Under Secretary Nizar Hamdoun of the Iraq Ministry of Foreign Affairs by U.S. Charge d'Affaires Wilson; and to Mr. Fakhri Rashaan, Advanced Countries Director for Foreign Economic relations in Iraq's Ministry of Trade by the U.S. agricultural trade officer in Baghdad.

We very much appreciate your commitment to use your good offices to urge that such a meeting take place as soon as possible. You asked us to provide more detailed background on the nature of the problems we wished to discuss. We are hereby providing that information in the attached document. The document will also be conveyed to the appropriate officials in Iraq by our embassy personnel. As mentioned in our prior communications of March 25, the issues which the United States wishes to discuss with Iraqi representatives include GSM contract pricing, shipment, tendering practices, and request for additional services and imposition of special taxes.

We would, in closing, repeat our desire to move forward expeditiously in resolving these issues.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard T. Crowder", followed by a stylized flourish.

Richard T. Crowder
Under Secretary
International Affairs and
Commodity Programs

Memo To:

Through:

From:

Subject: PCC Meeting on Iraq

At the interagency meeting on Iraq on April 12, [redacted] had each agency review its program. [redacted] Iraq and emphasized that there should be a coordinated approach (see attached memo). However he did not say how it should be coordinated, but alluded to the possibility of a National Council Meeting on Iraq.

Should there be a meeting, a key issue will be how to deal with legislative proposals for economic sanctions against Iraq. There is considerable sentiment in congress for some sort of action against Iraq. The Administration has already opposed legislation proposed by Congressman Berman that would tighten export controls, deny Exim Bank credits or guarantees and require the U.S. to oppose loans to Iraq by international financial institutions. The dilemma is how to promote U.S. exports to Iraq while maintaining the embargo on high technology exports that could have military uses. It is high technology exports that Iraq wants to buy from the U.S.

The Treasury has not taken a position on the issue of the level and type of exports to Iraq. Rather, our position is confined to limiting U.S. agency export financing on unworthiness grounds, since Iraq is in arrears to most of its creditors and refuses to reschedule on a multilateral basis. We have opposed efforts by Iraq and U. S. business to get the U.S. to provide medium term financing and have tried to limit the U.S. role in CCC credit guarantees. We are also insuring that the CCC program for 1990 includes safeguards and control against irregularities.

More generally [redacted] is now faced with reassessing of its policy to improve relations with Iraq in view of the military threats by Iraq. U.S. high technology exports, and credits are about the only leverage that [redacted] has to achieve its goals.

Source: Treasury Dept.

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TO: P - Mr. Kimmitt
 FROM: NEA - John M. Kelly
 SUBJECT: NSC Deputies Committee Meeting on Iraq
 April 16, 1990
 White House Situation Room
 4:00 pm

I. KEY POINTS

Recent Iraqi actions -- especially the London smuggling arrests and Saddam's threats against Israel -- have virtually eliminated political support for efforts to build useful relations with Iraq. Some agencies, such as Commerce, have moved to curtail activities involving Iraq without interagency consultation. Critics of this relationship see this as an opportunity to cripple it for the foreseeable future.

In order to regain control of policy toward Iraq, we need to establish a political framework that provides a strong response to irresponsible Iraqi actions in the near term and lays down some longer term markers for gradually rebuilding the relationship.

II. INTERAGENCY POSITIONS

CCC Program: This is the major immediate issue. USDA has taken no position on whether the FY90 second tranche should be released but in any event does not want to kill the program altogether. A USDA delegation is leaving on April 16 for Baghdad to review past irregularities in the CCC program with the Iraqis. Based on the Iraqi response, USDA will decide whether to propose a second \$500 million tranche. There is strong pressure from agricultural suppliers. (Last year Iraq accounted for over 20 percent of U.S. rice exports.)

Exim Program: Exim has never been more than lukewarm in defense of its \$200 million short-term rotating credit insurance facility for Iraq. Congress sought to suspend the program in the FY90 Foreign Appropriations Bill but provided for a Presidential waiver, which was issued earlier this year.

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Licensing and Trade: NSD-26 noted that this was the area in which the relationship was most likely to grow. ES, T, and Commerce believe we need to expand current controls on exports to Iraq -- especially in the chemical field (Tab B) and a non-proliferation PCC, chaired by Reg Bartholomew will look at what can be done. Defense and CIA will support initiatives to limit sales of virtually any technology to Iraq.

Legislation: For a variety of reasons State, Justice, Treasury and USDA all registered objections to the Serman sanctions legislation in a letter to Richard Darman, but the measure is likely to be resubmitted when Congress returns. says many members are waiting to see what the Administration will propose with regard to Iraq and are willing to let the Executive branch take the lead. If our efforts are deemed insufficient, however, Congress will enact a host of anti-Iraq resolutions and amendments in the next session.

Other: The NSCS is considering a strong presidential message to Saddam that will reiterate our concerns and discuss what would be needed to revive the relationship. We think might overload the circuits now and that this option should be held in reserve.

III. PROPOSED STRATEGY

The dilemma we face is that the relationship is already paper-thin. We do nothing for Iraq. The EXIM and CCC programs are essentially export promotion measures. Their cancellation would hurt U.S. exporters. The Iraqis will find others to turn to for food and other things they need. Nevertheless, we need to send a signal to both Iraq and Congress that we are prepared to take action against Iraq as a concrete sign of our displeasure over recent Iraqi actions. Given the Administration's position that food will not be a political weapon, we may not be in a position to make a formal announcement that there will be no second tranche of CCC credits this year. We can, in fact, put the program under indefinite review, resulting in the same (possibly USDA's motive in sending its team to Baghdad). Iraqis will get the message. A more visible and immediate action would be to withdraw the Presidential waiver issued in January that permitted EXIM to resume operation. Taking that action would go a long way towards placating Congressional critics and help head off sanctions legislation that would limit our flexibility.

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~~We may also want to consider sending Dick Schifter to Iraq~~
~~for human rights discussions. The Iraqis are taking some~~
~~halting steps towards cleaning up their human rights act. A~~
new Constitution is in the final stages of preparation, and
political parties are likely to be allowed to operate.
Progress in this area will be slow, but any movement in the
bleak Iraq context is worth supporting, and Dick Schifter might
be able to give it a push.

Attachment: Tab A - Talking points
Tab B - EB paper on export controls

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TALKING POINTSGeneral

- When the President briefed Sen. Dole on Iraq on Wednesday, he emphasized that Iraq remains an important country. On the one hand, we needed to respond effectively to several recent Iraqi actions and Saddam's threats. On the other hand, we need to preserve our ability to deal with the Iraqis in the longer term.
- The President's views should guide our own decisions.
- Sen. Dole has delivered a strong message to Saddam Hussein and we have followed it up with demarches detailing the Iraqi actions to which we object and indicating what Iraq must do to restore businesslike relations.
 - o Among the areas we touched on were nuclear/missile proliferation, Iraqi disregard for U.S. law, and human rights.
- In the longer term, Iraq's response in these areas will determine how relations develop.
- In the near term, we need to decide on some concrete steps that will make it clear to Saddam that we mean business.

CCC Program

- CCC is our largest single program with Iraq and is of great concern to the Iraqi Government.
- In the current atmosphere, there is no possibility that the second \$300 million tranche for FY90 will be released. The State would oppose release at this time.
- However, we want to ensure that the program itself survives so that we can revisit the issue next fall to determine the light of Iraqi actions in the interim, whether we should propose a program for Iraq in FY91.
- USDA has a legitimate concern that we not appear to violate its longstanding policy that forbids the use of food sales for political purposes. In addition, USDA is going ahead with consultations with Iraq on past abuses of the CCC program.
- We should permit USDA to continue the process it has in progress but make no new commitments for FY90.

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Exim

- Circumstances have changed drastically since the President waived congressional sanction on Iraq's Exim program in January.
- We need to recognize that this program, like the CCC program, basically benefits domestic exporters.
- That being said, there is ample justification for rescinding the waiver, at least until the Iraqis have demonstrated that they are prepared to respond seriously to our concerns.
- Unless Exim raises some strong and convincing objection to such action, State would support it.

Licensing/Trade

- There is no need for us to be apologetic about our current regime of export controls for Iraq: if they were ineffective, the Iraqis would not have felt constrained to smuggle the items they needed. When they smuggled, they were caught.
- There are a number of proposals for expanding export controls on Iraq, and they deserve serious consideration. However, State opposes unilateral action by the U.S., which in many cases would involve difficult efforts to deny Iraq widely available technology.
- In order for such action to have an impact, it requires the support of our partners in non-proliferation efforts.
- We will create problems for ourselves by promulgating controls unilaterally and then seeking to bring our allies on board.
- Undersecretary Bartholomew will chair a non-proliferation FCC to look at what we might do with regard to Iraq in this area and report back to the DC.
- We would then approach the MTCR and Australia Group on what further limits should be placed on Iraq and then act in the wake of consultations.
- This might result in less comprehensive additional limits, but they would be more effective. The Iraqis would view an international effort much more seriously than unilateral steps.

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United States Department of State

Washington, D. C. 20520

~~SECRET~~
 INFORMATION MEMORANDUM
 S/S

9008758
 20 APR 83 7:45 PM

To: The Secretary
 Through: P - Mr. Kinnitt
 From: NEA - Edward W. Gnehm, Jr. *EWG* Acting
 Subject: DC Meeting on Iraq

The Deputies Committee met April 16 to discuss Iraq. Participants focused on proliferation issues as the core of concern. This summer will see the NPT Review Conference meeting of the Australia Group on CW, and a meeting of All on the Missile Technology Control Regime. It was agreed to the Non-Proliferation PCC (chaired by Rep Bartholomew) should develop a strategy for multilateral action in advance of the events, and will review proposals for tighter multilateral export controls.

On other programs, such as CCC and Eximbank financing there were some differences. I argued the need to send a political signal to the Iraqis by taking visible action in response to recent Iraqi behavior. NSCS and DOD argued against this, maintaining the CCC and Exim credit guarantee program benefit U.S. exporters, and cancelling them would have little effect on Iraqi actions on proliferation issues. They urged action directed against proliferation, in areas such as licensing and export controls. CIA agreed.

Bob Dole is scheduled to meet with the President on April 17 at 4:30 PM to discuss his trip to the Middle East. Our impression from reporting is that the Senators found their meeting with Saddam Hussein useful and Dole is likely to tell the President he believes Saddam and his country have a serious role to play. The DC decided a PCC should be held to propose some specific options in light of the DC meeting and Dole's upcoming conversation with the President.

DEPARTMENT OF STATE

IC: PAC/CDR *AD* D.L. *2/3/83*

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United States Department of State

Under Secretary of State for Political Affairs
Washington, D. C. 20520

April 17, 1990

NOTE TO THE SECRETARY

SUBJECT: DC Meeting on Iraq

As I noted at the staff meeting this morning, neither Agriculture nor Treasury was at yesterday's Deputies Committee meeting. Agriculture is now leaning forward on the second \$300 million CCC tranche, while Treasury is still skeptical.

I continue to believe that we should oppose the second tranche on political grounds. Technically, political considerations are not supposed to influence CCC or EXIM lending decisions, but in fact those decisions have to be made in the broader political context. If we go forward with CCC and EXIM, I think Saddam Hussein will regard that decision as a positive political signal, which will lead him to downplay other efforts we might undertake to stop his proliferation campaign.

RMK
Robert M. Kimmitt

DECLTOADR

DECLASSIFIED BY: Frank Mehal
Director, Office of FOI,
Privacy and Classification
Review

June 1, 1992



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1112

008

April 11
Memorandum to the Secretary
DEPARTMENT OF AGRICULTURE

FROM: Alan Charles Raul *AKC*
General Counsel

SUBJECT: End of Week Report

1. Iraq. An investigative team left for Baghdad on Monday afternoon. The team included an attorney from OGC (Kevin Brosch) and two FAS representatives (Dickerson and Larry McElvain). They are planning to return next Monday. So far, it appears the Iraqis are being quite cooperative, although it seems not enough on documentation may be available to answer all our questions about the pricing of oil. The Iraqis have already committed to us, however, to cease their practices of imposing "after sales service" from our GSM exporters and imposing special "stamp" taxes on letters of credit opened for our GSM exporters.

As you know, the team was originally scheduled to leave last Sunday. However, the Iraqis delayed the arrival because they were somewhat exercised by the issuance of the press release last Friday. That release announced (1) the fact that USDA was engaged in an administrative review of alleged past irregularities regarding the GSM program for Iraq, (2) the forthcoming investigative trip to Baghdad, (3) that Iraq was cooperating, and (4) that any decision on further credits for Iraq would be the conclusion of our administrative review.

There was an NSC "Deputies Committee" meeting on Monday. At that meeting, we discussed the Iraq policy further. Ann Veneman, at Deputy Secretary Parnell's request, was called over to the White House. She was told that USDA's "position would be respected" but that she should not plan on attending the meeting. I have no further information on the outcome of that meeting.

As I mentioned at staff, I briefed Treasury and State on Thursday. Secretary Robson encouraged us, as you know, to provide broad Congressional briefings. Also, I worked with Kelly Stimp and Ann Veneman on the New York Times article regarding Iraq.

DEPARTMENT OF STATE
ECON. / BUS. AFFAIRS

LEAST IN PART, BY ABSENCE OF OTHER COMPETITORS IN 1980.
MARKETPLACE. USDA TEAM SATISFIED THAT PRICE LEVELS,
ALTHOUGH SEEMINGLY HIGH, ACCURATELY REFLECTED MARKET
PRICE REALITIES DURING PERIOD.

7. SECOND MAJOR FINDING IS THAT GOI STATE ENTERPRISES DURING PERIOD WERE ALMOST EXCLUSIVELY C AND F PURCHASERS. AS A RESULT, IRAQI PURCHASING DECISION

7. SECOND AND FUNDING IS THAT GOI STATE ENTERPRISES DURING PERIOD WERE ALMOST EXCLUSIVELY C AND F PURCHASES. AS A RESULT, PURCHASING DECISION WAS CONCENTRATED ON TOTAL C AND F BID, AND NOT ON FOR BID. THIS IS BECAUSE OF INTEREST IN IRAD DURING 1986-88 PERIOD OF OBTAINING FREIGHT FINANCING AND OF MINIMIZING CURRENT CASH FLOW. HIGH FOR PRICE LEVELS ALSO SEEM TO BE RELATED TO ABILITY OF BIDDER, DURING THE PERIOD, TO SECURE AND PROVIDE DEFERRED CREDIT TERMS FOR FREIGHT PORTION OF PURCHASE. USDA TEAS HAS NOTED THAT U.S. BIDDERS, OTHER THAN EXTRANE, WERE EITHER UNABLE OR UNWILLING TO PROVIDE ADVANCE FREIGHT FINANCING. IN 1980S, BIDDERS WERE NOT ABLE TO SECURE BIDS BECAUSE IT WAS UNUSUAL FOR U.S. GOVERNMENT TO PROVIDE FINANCING WITH FREIGHT FINANCING PROVIDED UNDER IRAD-TURKISH TRANSPORTATION AGREEMENT WHICH PERMITTED TWO YEAR FINANCING FOR FREIGHT PORTION.

8. USDA TEAM INITIALLY CONCLUDES THAT HIGH REPORTED FOR PRICES FOR ENTRADE MAY INVOLVE ARBITRARY ALLOCATIONS BY EXPORTER BETWEEN FOB AND FREIGHT PORTIONS OF SALES. INFORMATION OBTAINED IN IRAQ WILL HELP US TO EVALUATE THIS HOPE ACCURATELY.

9. USDA TEAM ALSO DISCUSSED POSSIBLE DIVERSION OF
GOODS, LOGS, AND WOOD FOR USDA AND GOV. TO BEACH

GOODS ISSUE, AND NEED FOR USIA AND GOI TO REACH UNDERSTANDING ON PROOF OF ARRIVAL. GOI WAS ABLE TO

DEMONSTRATE THAT MINISTRY OF TRADE MAINTAINS TRUCKING CUSTOMS AND CONSIGNMENT DOCUMENTATION TO DEMONSTRATE

THE ARRIVAL OF GSN GUARANTEED GOODS AT IRAQI STORES.

USDA REVIEWED DOCUMENTATION BASED ON USDA REQUESTS OF
SAMPLE TRANSACTIONS AND CONCLUDES INITIALLY THAT GOI

CAN DEMONSTRATE THAT NO REAL DIVERSION ISSUE EXISTS. USDA TEAM SATISFIED THAT A MUTUAL SOLUTION CAN BE REACHED TO MEET FUTURE PROGRAM REQUIREMENTS.

18. USDA TEAM WILL LEAVE BAGHDAD SUNDAY NIGHT AND ARRIVE WASHINGTON MONDAY EVENING. FULL REPORT OF VISIT AND FINDINGS AT THAT TIME.

11. THIS MESSAGE CLEARED BY DICKERSON, BROSN, McELVAIN
AND STATE-1/NEA-WATSON.

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Exemptions

is PFC/CDR *W/L* Date: *2/1/93*

April 26, 1990

MEMORANDUM FOR THE FILES

FROM:

SUBJECT:

At the request of G and C met with Treasury representatives to discuss whether further action should be taken at this time to Congress about CCC programming in Iraq under the GSM credit guarantee programs.

C indicated a strong desire to keep a broad base of players on the Hill informed, with as much responsible disclosure as possible. He expressed particular concern about potential criticism of the administration's decision to go forward with \$500 million in GSM-102 credit guarantees earlier in the fiscal year, in light of the possibility of Iraqi non-repayment and of the substantial anti-Iraqi sentiment that has been generated through recent developments.

G official felt that the question of further credit authority for Iraq was not in the immediate offing and G was keeping both the House and Senate Agriculture Committees informed. He felt that G was in fairly good shape with Congress on the issue. C official indicated his department was in touch with staffers on Hamilton's HFAC subcommittee, and that C official would be giving testimony concerning Iraq on Thursday April 26. The testimony would likely deal with the CCC program in the opening statement and perhaps in follow-up and A's. Both Treasury and G requested the opportunity to review C official testimony.

G official said G is concerned that foreign policy considerations may cause curtailment of the program, and is uncomfortable emphasizing foreign policy as the public rationale for making available the first tranche of FY90 GSM guarantees. He stressed that further GSM programming for Iraq would depend on the outcome of its administrative review. He added that the Agriculture committee understands that Iraq might default on outstanding debts if a further tranche is not granted.

Source: Dept. of Treasury

- 2 -

USDA's three-person investigative team left for Baghdad on April 16. (Their departure was delayed one day because of Iraqi unease about USDA's press release of April 13 announcing that USDA was looking into irregularities in CCC programming in Iraq.) The team was expected back by early in the week of April 23. This investigation is not tied to that of the Justice Department in the BNL matter but is under USDA's own administrative authorities. (It now appears that Justice is pursuing other aspects of the BNL investigation and is not likely to return to the Iraqi question until late in the year, if at all.)

In response to a question from _____, ~~Confidential~~ noted that, although C. still desired a constructive relationship with Iraq, recent developments had caused the situation to deteriorate from last fall.

Attachment: List of Attendees

cc:

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PAGE 01 STATE 136806
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TAGS: PARM PHUM MCAP, IZ IS

SUBJECT: ASSISTANT SECRETARY KELLY'S HFAC TESTIMONY ON IRAQ

1. SUMMARY AND INTRODUCTION: ON APRIL 26, NEA ASSISTANT SECRETARY KELLY TESTIFIED ON U.S.-IRAQI RELATIONS BEFORE THE EUROPEAN AND NEAR EAST SUB-COMMITTEE OF THE HOUSE FOREIGN AFFAIRS COMMITTEE. A/S KELLY SUMMARIZED HIS STATEMENT (TEXT IN WIRELESS FILE), AND FIELDIED QUESTIONS FOR ONE AND A HALF HOURS. QUESTIONING FOCUSSED ON PROLIFERATION, IRAQI INTENTIONS TOWARDS ISRAEL, AND HUMAN RIGHTS, PLUS ADMINISTRATION POLICY TOWARDS IMPOSING SANCTIONS ON IRAQ AND THE LIKELY EFFECTS OF SANCTIONS.

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THE THRUST OF QUESTIONING BY CONGRESSMEN LANTOS BERMAN

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AND LEVINE WAS THAT IRAQ'S BEHAVIOR HAS REACHED A POINT AT WHICH THE ADMINISTRATION SHOULD RESPOND WITH SANCTIONS. CHAIRMAN HAMILTON WAS CONCERNED WITH THE POSSIBLE EFFECTS OF SANCTIONS. HAMILTON, LANTOS, AND BERMAN WERE ALSO CONCERNED ABOUT ASPECTS OF ARMS CONTROL; SPECIFICALLY, WHETHER THERE SHOULD BE A REGION-WIDE BAN ON WEAPONS OF MASS DESTRUCTION. THIS MESSAGE IS A SUMMARY OF THE HEARING. END SUMMARY AND INTRODUCTION.

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SANCTIONS

2. CHAIRMAN LEE HAMILTON (D-IN) LED OFF QUESTIONING BY ASKING WHETHER KELLY BELIEVED THERE IS POTENTIAL FOR IMPROVING IRAQI BEHAVIOR. IS THIS A TRIAL PERIOD? KELLY POINTED TO LIFTING OF TRAVEL RESTRICTIONS AND THE NEW DRAFT CONSTITUTION AS EVIDENCE OF POTENTIAL FOR IMPROVEMENT, AND AGREED WE ARE IN A TRIAL PERIOD TO SEE WHETHER IRAQ'S BEHAVIOR WILL IMPROVE. HE AFFIRMED WE ARE NOT RULING OUT SANCTIONS UNDER ANY CIRCUMSTANCES.

3. TOM LANTOS (D-CA) DECRIED THE "ALICE IN WONDERLAND" TONE OF KELLY'S STATEMENT. THE STATEMENT CATALOGUES A "CHAMBER OF HORRORS" BUT THEN EXPRESSES THE HOPE THAT SADDAM WILL CHANGE. ALTHOUGH, LANTOS CONTINUED. THE STATEMENT DRAWS A DICHOTOMY BETWEEN WORDS AND DEEDS, WORDS LIKE SADDAM'S HAVE NOT BEEN HEARD SINCE ADOLPH HITLER. WHEN, HE ASKED, IS THE ADMINISTRATION GOING TO RECOGNIZE THAT SANCTIONS ARE APPROPRIATE? MEL LEVINE (D-CA) AND HOWARD BERMAN (D-CA) SECONDED THESE SENTIMENTS AND ASKED

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WHAT POSITIVE STEPS THE ADMINISTRATION IS LOOKING FOR.

4. KELLY RESPONDED THAT DEALING WITH COUNTRIES THAT DO ATROCIOUS THINGS IS DIFFICULT. WE FACED THAT PROBLEM WITH THE SOVIET UNION AND WITH SOUTH AFRICA. OUR POLICY IS TO ENGAGE. WE BELIEVE THERE IS A POTENTIAL FOR POSITIVE ALTERATION IN IRAQ'S BEHAVIOR. WE DON'T BELIEVE SANCTIONS WOULD LEAVE THAT POSSIBILITY OPEN. IN ADDITION EUROPE AND JAPAN WILL FILL ANY GAP LEFT BY OUR SANCTIONS. REGARDING WHAT WE WOULD LIKE TO SEE, IRAQ SHOULD STOP ITS

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ABUSES OF HUMAN RIGHTS AND VIOLATIONS OF U.S. LAWS AND
SHOULD BEHAVE RESPONSIBLY IN LINE WITH ITS COMMITMENTS
THE NPT AND OTHER INTERNATIONAL AGREEMENTS.

5. LANTOS FOLLOWED UP BY ASKING WHETHER THE
ADMINISTRATION HAS TAKEN UP THE POSSIBILITY OF SANCTIONS
WITH OUR ALLIES IN EUROPE AND JAPAN. KELLY RESPONDED
HE HAS DISCUSSED THE ISSUE, AND FOUND NO GOVERNMENT IS
INTERESTED IN SANCTIONS. THERE IS AN ACROSS-THE-BOARD
BELIEF THAT THE WAY TO IMPROVE IRAQI BEHAVIOR IS TO ENGAGE
IRAQ. OUR ALLIES BELIEVE WE SHOULD MAINTAIN DIPLOMATY
AND TRADE CONTACTS.

6. BERMAN MADE THE POINT THAT THE THREAT OF SANCTIONS
IN HIS BILL TO RESTORE IRAQ TO THE TERRORIST LIST AFTER
THE ADMINISTRATION REMOVED IT IN 1982) IS HELPFUL IN
CHANGING IRAQI BEHAVIOR. BERMAN POINTED TO THE AREA OF
EXPORT CONTROLS AS ONE IN WHICH SANCTIONS WOULD HURT

IRAQ: HE ASSERTED THE U.S. EXPORTED DOLS 60 MILLION IN
HIGH TECHNOLOGY DUAL USE ITEMS OVER THE LAST YEAR.
HAMILTON ASKED FOR A FULL ANALYSIS OF THE BERMAN BILL
(H.4585): WHAT RESTRICTIONS DOES IT IMPOSE THAT WE ARE
NOT NOW IMPOSING, WHAT EFFECTS WILL IT HAVE ON U.S.
EXPORTS, AND CAN WE ABSORB A RETALIATORY OIL EMBARGO FROM
IRAQ, WHICH HAS BEEN SUPPLYING 8 PERCENT OF U.S. CRUDE OIL.
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IMPORTS. KELLY AGREED TO PROVIDE AN ANALYSIS. IN
RESPONSE TO FURTHER QUESTIONING, HE REVIEWED OUR CCC AND
EXIM PROGRAMS, RESPONDING TO HAMILTON THAT WE HAVE NO
ON-BUDGET PROGRAMS PROVIDING U.S. TAXPAYER SUPPORT FOR
IRAQ. OUR PURPOSE IN PURSUING THESE PROGRAMS IS TO
FACILITATE SALES FOR U.S. EXPORTERS.

IRAQ-ISRAEL

.....

7. HAMILTON ASKED WHY SADDAM HUSSEIN HAS BEEN MAKING
IRRESPONSIBLE STATEMENTS. KELLY BELIEVED IT MIGHT BE
IRAQI FEAR OF MILITARY ATTACK BY ISRAEL OR IRAN. OR FEAR
BY THE U.S. THERE IS AN ATMOSPHERE OF APPREHENSION IN
IRAQ IN WHICH EXTREME AND INFLAMMATORY THINGS ARE SAID.
WE HAVE DISCUSSED THE MATTER WITH THE IRAQIS IN BAGHDAD.

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AND HERE, AND SENATOR DOLE RAISED THE MATTER WITH SADDAM DURING THEIR CONVERSATION. THE IRAQIS HAVE NOT RETRACTED SADDAM'S STATEMENTS, BUT HAVE MADE THEM MORE EXPLICIT. SADDAM ORIGINALLY THREATENED RETALIATION FOR ANY ISRAELI ATTACK AND BOASTED OF POSSESSING "DUAL" CHEMICALS. SADDAM TOLD SENATOR DOLE IRAQ WILL RETALIATE AGAINST ANY ISRAELI ATTACK; IF ISRAEL ATTACKS WITH NUCLEAR WEAPONS IRAQ WILL RETALIATE WITH CW.

PROLIFERATION AND STRATEGIC PARITY

8. HAMILTON ASKED WHAT WE ARE DOING TO STOP THE PROLIFERATION OF WEAPONS OF MASS DESTRUCTION. KELLY WENT OVER OUR EXFOTR CONTROLS ON NUCLEAR, MISSILE AND CW-RELATED ITEMS, PLUS OUR MULTILATERAL EFFORTS VIA THE AUSTRALIA GROUP AND THE MISSILE TECHNOLOGY CONTROL

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REGIME. BENJAMIN GILMAN (R-NY) ASKED ABOUT IRAQ'S SPACE, MISSILE, CW AND NUCLEAR PROGRAMS. KELLY TOOK MOST QUESTIONS FOR CLASSIFIED RESPONSES STATING THAT WHILE IRAQ'S CIVILIAN NUCLEAR PROGRAM IS UNDER IAEA SAFEGUARDS, THE ATTEMPT TO PROCURE MILITARY WEAPONS LEADS US TO BELIEVE IRAQ IS ACTIVELY PURSUING A NUCLEAR WEAPONS CAPABILITY. HOWEVER, WE NOTED THE THOROUGHNESS OF THE REGULAR IAEA INSPECTIONS FOR POSSIBLE DIVERSION OF

SAFEGUARDED FISSILE MATERIAL. REGARDING MISSILES, IRAQ'S MODIFIED SCUDS HAVE A RANGE OF 550-600 KM AND CAN REACH ISRAEL. KELLY COULD NOT RULE OUT THE POSSIBILITY THAT IRAQ HAS CHEMICAL WARHEADS FOR THESE MISSILES.

9. HAMILTON ASKED FOR IRAQ'S POSITION ON ARMS CONTROL. KELLY SAID IRAQ IS A PARTY TO THE NPT AND GENEVA CONVENTION, AND IS AN OBSERVER AT THE CD IN GENEVA. HAMILTON ASKED FOR THE ADMINISTRATION'S ATTITUDE TOWARDS A MIDDLE EAST REGION-WIDE BAN ON WEAPONS OF MASS DESTRUCTION. KELLY RESPONDED THAT WE WOULD LIKE TO SEE THE REGION FREE OF SUCH WEAPONS. IT IS OUR UNDERSTANDING THAT ARAB COUNTRIES WOULD ONLY PARTICIPATE IF ISRAEL DOES. HAMILTON ASKED WHETHER WE OPPOSE AN ISRAELI NUCLEAR WEAPONS CAPABILITY. KELLY RESPONDED WE HAVE URGED ISRAEL TO JOIN THE NPT.

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10 LANTOS POINTED TO AN ARAB EIGHT-TO-ONE ADVANTAGE IN CONVENTIONAL ARMS OVER ISRAEL, AND ASKED WHETHER A STATE FACING SUCH A DISADVANTAGE COULD DISPENSE WITH A DETERRENT. KELLY RESPONDED THAT THERE ARE THREE ROUTES DETERRENCE: DEVELOP WEAPONS OF MASS DESTRUCTION, ALLY ONESELF WITH A STATE THAT ALREADY POSSESSES SUCH WEAPON OR NEGOTIATE MUTUAL REDUCTIONS OR ELIMINATION OF THESE WEAPONS. LANTOS RECOUNTED THAT HE SUPPORTED ISRAEL'S STRIKE ON THE OSSIRAK REACTOR AND ASKED WHETHER KELLY AGREED THAT THIS PREVENTED THE WAR WITH IRAN FROM GOING

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UNCLASSIFIED

PAGE 06

STATE 136806

NUCLEAR. KELLY DISAGREED, STATING THAT THE ADMINISTRATION WAS NOT CONVINCED IRAQ WAS CLOSE TO DEVELOPING NUCLEAR WEAPONS. KELLY NOTED US 1981 CONDEMNATION OF THE TUAHAI RAID. HAMILTON ASKED FOR A FULL ANALYSIS OF REGIONAL FINANCIAL SUPPORT FOR IRAQ.

HUMAN RIGHTS

.....

11. JAN MEYERS ASKED FOR ADMINISTRATION VIEWS ON H.CON.RES. 298, CONDEMNING IRAQ'S HUMAN RIGHTS RECORD. KELLY REPLIED HE SUPPORT THE RESOLUTION WITH ONE CHANGE LANGUAGE (WHICH HAMILTON READ OUT: CHANGE CONDEMNATION FROM "CONSISTENT PATTERN OF GROSS VIOLATIONS OF INTERNATIONALLY RECOGNIZED HUMAN RIGHTS STANDARDS" TO "GROSS VIOLATIONS. ."). MEYERS ASKED WHETHER CONGRESS SHOULD SHY AWAY FROM H.CON.RES. 298 IN LIGHT OF SENATOR DOLE'S WARNING THAT CONGRESS SHOULD WEIGH CAREFULLY THE EFFECTS ABROAD OF RESOLUTIONS SUCH AS THE JEFU-ALEM RESOLUTION. KELLY REITERATED THAT HE CAN SUPPORT THE HUMAN RIGHTS RESOLUTION IF IT IS AMENDED.

12. BENJAMIN GILMAN (R-NY) ASKED ABOUT KURDS IN IRAQ. KELLY GAVE A BRIEF OVERVIEW AND STRESSED OUR CONCERNS OVER THE USE OF CW TO SUPPRESS A KURDISH REBELLION AND THE RELOCATION OF 500,000 KURDISH VILLAGERS. KIMMITT

2/4/90

TO: Larry Urgenson
Chief, Fraud Section
Criminal Division
United States Department of Justice

FROM: Rimantas A. Rukstele
United States Attorney
Northern District of Georgia

BY: Gale McKenzie
Assistant United States Attorney

RE: Notice to USDA of Iraqi Complicity in Criminal
Violations

This memorandum is submitted in response to your request for information to prove an oral briefing to the USDA Office of General Counsel prior to their Friday meeting with Congressional representatives.

This office continues to support the Northern District of Georgia/Department of Justice, April 24, 1990 decision to give written notice of Iraqi criminal complicity to the USDA Office of General Counsel as follows:

Please be advised that the Department of Justice has developed credible evidence in connection with the Banco Nazionale del Lavoro (BNL) Atlanta investigation which shows criminal complicity of certain Iraqis who were also involved in the CCC program.

As we previously discussed during our meeting of February 23, 1990, various Iraqis are implicated in a scheme to defraud BNL, to demand after sale services from exporters receiving CCC guarantees, and to collect payments from non-CCC exporters.

The written notice may be important to avoid any misunderstanding, since neither General Counsel Raul nor Assistant General Counsel Brosch acknowledged prior briefings on the extent of Iraqi complicity discussed with them on February 23, 1989. In fact, the USDA General Counsel's Office had been advised of such examples prior to their October, 1989 release of the first \$500 million in Iraqi CCC guarantees.

An interesting segment of testimony in this regard was revealed during any trial on the proposed Northern District of Georgia criminal indictment. In November 1989, when BM was attempting to negotiate at least partial collateralization of over \$2 billion of credit extended through the Drogoul/Iraqi to defraud, the Iraqis simply laughed. They cited the "clear of health" just provided by the United States government to the October, 1989 extension of \$500 million in CCC guarantees.

The currently proposed oral briefing of USDA raises concerns of this office. First, is the Rule 6(e) absolute restriction on dissemination outside the criminal arena. Second, is any possibility that release of information in this criminal proceeding could be made public in violation of Northern District of Georgia Local Rule 115-2. We have raised with Assistant General Counsel Kevin Brosch the fact that a direct quote from a Northern District of Georgia briefing was published in an agricultural trade journal.

However, regardless of the concerns of this office

certainly acknowledge DOJ's decision to proceed with an oral briefing and provide the following information as requested:

1. False statements relating to CCC programs PL 480 and GSM 500 will be included in the initial Northern District of Georgia indictment, if the Grand Jury concurs, as will as false statements regarding the proposed sale of GSM 102 and 103 assignments to Louis Dreyfus. The false making of USDA CCC Payment Guarantees and writings in imitation thereof in violation of Title 18, United States Code, Section 493 will also be included. See Northern District of Georgia Prosecution Memorandum (Pros Memo pages 1 and 2).
2. Iraqis who were also involved in the CCC program are proposed as defendants in the initial indictment. See Pros Memo pages 8 and 9 and exhibit 35. Details of criminal complicity of various Iraqis in a scheme to defraud BNL, to demand after sale services from exporters receiving CCC guarantees and to collect payments from non-CCC exporters are at page 43 through 63 of the Pros Memo.

There is a non-grant jury source for all

involvement in Section VI E, VI E1 and VI E4 through line 22 on page 62 (page 43 - 50 and 60 - 62, line 22). The grand jury was used to obtain documentary evidence of facts set forth in Sections VI E2, VI E3, and VI E4 line 23 on page 62 to conclusion of VI E4, although general information regarding the nature of such payments was obtained prior to use of grand jury subpoenas.

3. The fact that Iraqi officials involved in the CCC program as identified in the Pros Memo have travelled to the United States and elsewhere to commit crimes in violation of U.S. law will be revealed in Northern District of Georgia indictments and/or trials. The fact that these Iraqi officials "had to know" that their scheme to defraud BNL resulted in materially false statements to U.S. agencies and departments, including the Federal Reserve and U.S. Treasury, will also become public.

It is our understanding that no portion of the information developed during the course of the Northern District of Georgia criminal investigation and provided by DOJ to USDA General Counsel Raul will be released outside his department. Of course, the office and DOJ wish to avoid any possibility of preindication.

disclosure of punitive defendants or improper public disclosure of any other information gained pursuant to a criminal investigation.

483632



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

00000

May 7, 1990

MEMORANDUM FOR LEON SNEAD
Acting Inspector General

FROM: Richard T. Crowder
Under Secretary

SUBJECT: Iraq GSM-102 Program

As you are aware, a team with representatives of FAS, CCC, OGC and the State Department met with Iraqi officials in Baghdad during the week of April 16, 1990 in furtherance of our administrative review of the GSM-102 program for Iraq. I understand that on Friday, May 4, the team briefed you and your staff on those meetings.

1. In the course of those discussions, representatives of the Government of Iraq disclosed that Iraq had, during the period 1987-1989, requested and, in some cases, received so-called "after-sales services" from U.S. exporters participating in the GSM-102 program. Based on information we have received from the trade in the past, these requests have been for a number of different benefits: cash rebates or discounts, agreements to use certain Iraqi shipping lines, additional agricultural products, and, in some cases, non-agricultural items (e.g., truck or air conditioning equipment). According to the Iraqi officials, this practice occurred primarily in conjunction with sales of wood products, but we understand that requests for after-sales service have been a common strategy of many Iraqi state enterprises. Iraq identified several U.S. exporters in the wood products industries that provided after-sales services in conjunction with specific GSM-guaranteed contracts. That information has been provided to your office.

The provision of after-sales services in conjunction with GSM-guaranteed sales could constitute a violation of program regulations if the exporters did not subtract the value of the additional benefits from the contract price at the time that it reported the "port value" of the sale to CCC when registering for the CCC guarantee. As you know, the regulations require that port value be reported net of any "discounts or allowances".

000068

I therefore request that the Office of the Inspector General institute an investigation of the exporters identified by the Government of Iraq, and of U.S. wood product sales to Iraq in general, to determine the extent of this problem, and to determine whether there have been any violations of the GSM regulations. Moreover, I would be interested in the views of your office about the need to pursue a more comprehensive study to determine whether this type of practice may have occurred in other sectors of the trade, or in transactions with other countries.

2. As a result of our administrative review, it also appears that certain U.S. exporters participating in the GSM-102 program for Iraq may have included freight charges in the F.O.B. prices they submitted for the CCC guarantee at a time when such charges were not authorized under the GSM program. Again, the specific information available to us was provided to your office at last Friday's briefing. I would request that OIG investigate this matter as well to determine the extent of the past problem and whether this practice continues to be a factor in any other areas of the GSM program where freight charges are not currently authorized to be included within the guaranteed amount.

cc: Alan Charles Raul
General Counsel

OFFICE OF UNITED STATES ATTORNEY
1600 Richard Russell Building
75 Spring Street, N. W.
Atlanta, Georgia 30335

FACSIMILE OUTGOING TRANSMISSION CONTROL RECORD

FAX NUMBER: FTS: 841.-2803
COMM: 404-331-2803

FROM: ANSA GALE MCKENZIE
NAME

OFFICE OF U. S. ATTORNEY
ATLANTA, GEORGIA

DATE: 6/7/90

TO: LARRY HENDERSON
NAME

ANSA, DC
CITY & STATE

NUMBER OF PAGES _____ (INCLUDING FAX TRANSMISSION CONTROL RECORD)

DESTINATION FAX NO: _____

PRECEDENCE: ROUTINE _____
IMMEDIATE _____
PRIORITY XXX

NAME OF SENDER: GALE MCKENZIE

FAX#: FTS - 841-2803

COMM: 404-331-6446

REMARKS:

Larry:

*USDA reference in attached memo
does not reference USDA OGC.*

*I presume this is our last
word on the USDA disclosure subject!*
"all"

Memorandum



Subject: Notice to USDA of Iraqi Complicity in Criminal Violations - Additional Information	Date: May 7, 1990
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to: Larry Urgenson Chief, Fraud Section Criminal Division United States Department of Justice	From: Rimantas A. Rukstele United States Attorney Northern District of Georgia BY: Gale McKenzie Assistant U.S. Attorney
--	--

Attached please find a USDA report regarding an administrative review of the Iraq GSM-102 program. We understand this report may be used as a basis of a Congressional briefing. This report reinforces the position of this office that USDA should be notified in writing of Iraqi complicity in criminal violations as set forth in our 4/27/90 and 5/4/90 memoranda to you.

Past communications have clearly been "misunderstood" by USDA as the report totally ignores specific information provided in person to General Counsel Raul and Assistant General Counsel Brosch on February 23, 1990. Page 13 of the report apparently alludes to that meeting only in vague terms without acknowledging the specific information provided:

At an ensuing interagency meeting, it was learned that the Atlanta investigation was unlikely to produce indictments or to disclose information in the near term.

As you will recall USDA was specifically advised of millions

of dollars in after sale services demanded and paid by tobacco companies in connection with CCC guaranteed shipments Iraq. See page 55, Pros Memo. Not only does the USDA report fail to include this relevant information, it also relies heavily upon current Iraqi statements that after sale services were limited to the timber industry - statements USDA has to know false in light of our February 23, 1990 briefing set up with Assistant to the Attorney General, Mark Richard. See page 30 of the USDA report. It is difficult to understand how the April 22, 1990 four days of USDA/Iraqi meetings can be characterized on page 31 of the USDA report as "marked by a very high degree of cooperation and disclosure on the part of Iraq" when USDA knew they were being provided false information by the Iraqis regarding the extent of after sale services.

Of further interest is the statement in the USDA report on page 30 that implies USDA "very recently" learned Iraqis were charging tax stamp fees on CCC guaranteed exports. In fact, USDA was aware of tax stamp fees before that committed the first \$100 million for Fiscal Year 1990 in CCC guarantees for Iraq.

Also of concern is the omission from the USDA report of any reference to the fact that Messrs. Raul and Brosch were advised on February 23, 1990 that Iraqis who were also involved in the CCC program are subjects of the criminal investigation because they were involved in a scheme to defraud EML and to collect millions in payments from non-CCC exporters, as well as to demand after sale services and tax stamp fees. The USDA report simply does

not deal with the fact, as discussed with USDA on February 23, 1990, that Iraqi officials involved in the CCC program have travelled to the United States and elsewhere to commit crimes in violation of U. S. law. Neither is it clear that these same Iraqi officials involved in the CCC program "had to know" that their scheme to defraud BNC resulted in materially false statements to United States agencies and departments, including the Federal Reserve and United States Treasury.

This office certainly recognizes that we do not "make policy", nor do we seek to do so. However, when relevant information is shared with policy makers and we have reason to believe that such information is being "misunderstood" to such an extent that Congress may be misled, it seems appropriate to correct any such "misunderstanding" before the remaining \$550 million in CCC guarantees for Fiscal Year 1990 are extended to Iraq. Since oral briefings by the Northern District of Georgia, United States Attorney and Assistant United States Attorney in your presence were not successful, we have no recourse other than to recommend written communication.

As you know there have been numerous newspaper articles alleging unwarranted Iraqi favoritism by the administration. It would be unfortunate indeed if this office which has diligently pursued the investigation should be set up as a "scapegoat" through unfounded allegations of non disclosure.

3
Attached to Original
is 5/3 version
of USDA Admin Rev



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

001693

May 8, 1990

MEMORANDUM FOR LEON SNEAD

Acting Inspector General

FROM:

Richard T. Crowder
Under Secretary

SUBJECT:

Iraq GSM-102 Program

As you are aware, a team with representatives of FAS, CCC, OGC and the State Department met with Iraqi officials in Baghdad during the week of April 16, 1990 in furtherance of our administrative review of the GSM-102 program for Iraq. I understand that on Friday, May 4, the team briefed you and your staff on those meetings.

1. In the course of those discussions, representatives of the Government of Iraq disclosed that Iraq had, during the period 1987-1989, requested and, in some cases, received so-called "after-sales services" from U.S. exporters participating in the GSM-102 program. Based on information we have received from the trade in the past, these requests have been for a number of different benefits: cash rebates or discounts, agreements to use certain Iraqi shipping lines, additional agricultural products, and, in some cases, non-agricultural items (e.g., truck or air conditioning equipment). According to the Iraqi officials, this practice occurred primarily in conjunction with sales of wood products, but we understand that requests for after-sales service have been a common strategy of many Iraqi state enterprises.

The provision of after-sales services in conjunction with GSM-guaranteed sales could constitute a violation of program regulations if the exporters did not subtract the value of the additional benefits from the contract price at the time that it reported the "port value" of the sale to CCC when registering for the CCC guarantee. As you know, the regulations require that port value be reported net of any "discounts or allowances."

001021

I therefore request that the Office of the Inspector General institute an investigation to determine whether there have been any program abuses and violations of the GSM regulations. Moreover, I would be interested in the views of your office about the need to pursue a more comprehensive study to determine whether this type of practice may have occurred in other sectors of the trade, or in transactions with other countries.

2. As a result of our administrative review, it also appears that certain U.S. exporters participating in the GSM-102 program for Iraq may have included freight charges in the F.O.B. prices they submitted for the CCC guarantee at a time when such charges were not authorized under the GSM program. I would request that OIG investigate this matter as well to determine the extent of the past problem and whether this practice continues to be a factor in any other areas of the GSM program where freight charges are not currently authorized to be included within the guaranteed amount.

cc: Alan Charles Raul
General Counsel

Telephone Call Made by Craig Beauchamp, Assistant Inspector General for Investigations, U.S. Department of Agriculture

5/8/90 Memo of Telephone Call

Call to Larry Urgenson, Chief, Fraud Section, Criminal Division [Department of Justice]

I told Urgenson that I had discussed USDA admin report with Dick Allen [?]. We were concerned that report did not reflect all information concerning after sales services, etc. It gave very incomplete picture of Iraqi involvement, etc. I said I was concerned that USDA getting ready to issue report, brief Congress and I thought the USDA and DoJ [Department of Justice] could be embarrassed. I said it was important that someone brief Raul and Crowder. ... Urgenson said he understood my concerns and would discuss them with his boss, the Dep[uty] Assistant AG [Attorney General]. Would get back to me.

5/8/90 Wang Teleph Call

Call to Larry Urgenson, Chief, Fraud Section, Criminal Division

I told Urgenson that I had discussed USDA admin report with Dick Allen. We were concerned that report did not reflect all information concerning after sales services, etc. It gave very incomplete picture of Iraqi involvement, etc. I said I was concerned that USDA getting ready to issue report, brief Congress and I thought the USDA and DoJ could be embarrassed. I said it was important that someone brief Raul and Crowder. ... Urgenson said he understood my concerns and would discuss them with his boss, the Dep[uty] Assistant AG [Attorney General]. Would get back to me.

Telephone Call Made by Craig Beauchamp, Assistant Inspector
General for Investigations, U.S. Department of Agriculture

5/10/90 Iraq

Talked with: Larry Urgenson Chief, Fraud Section [Criminal
Division, Department of Justice]

I called Urgenson as follow-up to my call to him on 5/8.
I told Urgenson that Leon Sneed had told Allen Raul to hold off
issue of USDA admin report [Administrative Review]. Raul wanted
meeting ?and one set up today at 4:00 pm with Raul and Under Sec.
Crowder. At that meeting I was going to raise problems with USDA
report re: after sales services, rosy picture of Iraq. Urgenson
said good, said DoJ to send letter to Department.

006513

MEMO OF CONVERSATION

PHONE
 VISIT
 CONFERENCE
 OTHER

Date
 5/10
 Page No.

Subject

Iraq

Talked With

Harry Uryson

Office

Chief, Intelligence

Telephone No.

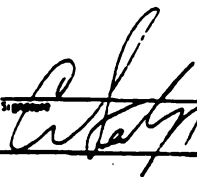
Content

I called Uryson as follow-up to my call to him
 5/8.

I told Uryson that Sam Sneed had told Allen
 Hall to hold off issuance of USIA's alien report.
 Hall wanted meeting and one set up today at 4pm with
 all the Sec. Under. At that meeting I was going to raise
 question with respect to: after sales source, very positive?
 Uryson said good, and DOJ to send letter to Department.

Discussion or Remarks

Signature



Title

M.I.

U.S. Department of Justice

Criminal Division

Office of the Deputy Assistant Attorney General

Washington, D.C. 20530

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MAY 16 1990

Mr. Alan Charles Raul
 General Counsel
 United States Department of Agriculture
 Administration Building
 Room 243W
 14th & Independence Avenue, S.W.
 Washington, D.C. 20250-1400

Dear Mr. Raul:

Following up on the discussion you had on the same subject with representatives of the Department of Justice on February 23, 1990, we want to summarize the state of our current investigations of the activities of the Banco Nazionale del Lavoro (BNL) as it pertains to possible complicity of Iraqi nationals. In this regard, the United States Attorney for the Northern District of Georgia has advised the Department of Justice that his office has developed credible evidence showing criminal complicity on the part of certain Iraqi nationals involved in the Commodity Credit Corporation (CCC) program. More specifically, various Iraqis are implicated in a scheme to defraud BNL of \$1 billion in credit extensions, to demand after-sale services and tax stamp fees from, among others, certain U.S. timber and tobacco and other exporters receiving CCC guarantees, and to collect payments from non-CCC exporters. The Iraqi officials involved in the CCC program are believed to have travelled to the United States and elsewhere to commit crimes in violation of U.S. law. The United States Attorney's Office has reason to believe that the Iraqi officials involved in the CCC program "had to know" that their scheme to defraud BNL would result in materially false statements being made to United States agencies and departments, including the Federal Reserve, United States Treasury, and the Export-Import Bank of the United States.

The United States Attorney's Office's current prosecutorial recommendations are consistent with those previously disclosed to you. If the Grand Jury concurs, he anticipates that false statement charges relating to CCC programs will be included in an initial Northern District of Georgia indictment, as well as similar charges regarding the sale of GSM 102 and 103 assignments. The false making of CCC Payment Guarantees and writings in imitation

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thereof in violation of Title 18, United States Code, Section 493, will also be charged. The proposed prosecution is currently being reviewed within the Department of Justice.

The United States Attorney also expects guilty pleas to USDA counts from two subjects immediately upon return of the indictment. These pleas will involve the large kickbacks to BNL-Atlanta employees and coconspirators whom the United States Attorney's Office previously indicated as having been paid out of the 1986 Extrade CCC guaranteed "corn deal".

False statements to the Federal Reserve, U.S. Department of Treasury, the Export Import Bank of the United States and the General Accounting Office resulting from illegal concealment of almost \$3 billion of unauthorized extensions of credit to Iraq by BNL-Atlanta employees may also included in the proposed charges, as well as other violations.

The information that the United States Attorney discussed with you in February regarding the several million dollars in after-sale service payments to the Iraqis by certain U.S. tobacco companies continues to be relevant. Tobacco exporters under the GSM 102 and 103 programs had paid over \$1.1 million in after-sale services in addition to some \$808,300 demanded on non-CCC guaranteed shipments. The Iraqi demands on the tobacco industry became so oppressive that tobacco companies as a group refused to pay at the increasingly higher rates. You may wish to take these facts into account in assessing the information provided by Iraqi officials during your meetings in Baghdad on April 18-22, 1990.

Also of interest to the United States Attorney's Office is the routing of these payments through Bulgaria, England, Germany, Austria, France and other countries. Likewise, it is believed the Iraqis attempted concealment of payments demanded from non-CCC exporters by routing such funds through off-shore, nominee companies. Many of the Iraqi officials involved in the scheme to defraud BNL and to obtain funds from non-CCC exporters were involved in the CCC program activity.

Criminal prosecution of the following Iraqi officials, among others, is under consideration: Sadik N. Taha, Director General for Agreements and Loans, Central Bank of Iraq; Raja Hassan Ali, Director General, Economic Department, Ministry of Industry; Abdulahad Petrus Tama, Officer of Central Bank of Iraq; Dr. Abdul Munam Rasheed, Director General for Investments, Central Bank of Iraq; Ahmed Al-Dulami, Under Secretary, Ministry of Industry and Military Manufacturing; and Dr. Safa Al-Nababi, Director General.

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Al-Massar Complex, Ministry of Industry and President/Chairman of TDC and President of Matrix-Churchill, U.K. Messrs. Taha and Rasheed signed BWL-Atlanta/CCC agreements and Taha and Ali were members of Iraqi delegations to negotiate the CCC guarantees. The United States Attorney's Office believes that these individuals specifically knew that the CCC transactions and other extensions of credit were not authorized by BWL-Rome and that each took actions to conceal such transactions from BWL as part of their scheme.

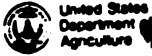
In recognition of the policy decisions which you must reach regarding extension of additional CCC export guarantees to Iraq, the United States Attorney's Office working with the Inspector General's Office in Atlanta has continued to share information with your office, to the extent permitted, since the criminal activity at BWL-Atlanta was discovered in August 1989. However, we must stress that the information and materials provided to you relate to an ongoing criminal investigation and should not be disclosed. Moreover, we would appreciate if you would restrict dissemination of this information within USDA to the extent possible.

Sincerely,



Mark M. Richard
Deputy Assistant Attorney
Criminal Division

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United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

Tim Deal

May 16, 1990

**MEMORANDUM FOR RICHARD T. MCCORMACK
UNDER SECRETARY OF STATE**

**EDWARD S.G. DENNIS, JR.
ASSISTANT ATTORNEY GENERAL**

**TIMOTHY DEAL
SPECIAL ASSISTANT
TO THE PRESIDENT AND
SENIOR DIRECTOR
INTERNATIONAL ECONOMIC AFFAIRS
NATIONAL SECURITY COUNCIL**

FROM:

f

**Richard T. Crowder
Under Secretary
International Affairs and
Commodity Programs**

**Alan Charles Raul *ACR*
General Counsel**

SUBJECT:

**Report of Administrative Review of Iraq GSM
Program**

Attached for your review and clearance is a draft report of USDA's administrative review of certain transactions in connection with the GSM program for Iraq. We intend to release this document to the House and Senate Agriculture Committees, and make it available to the public, together with an executive summary and a press release. We believe it is essential to get these facts and conclusions out to the public as soon as possible.

In essence, after interviewing Iraqi agriculture officials and certain U.S. exporters, and reviewing certain bank records, exporter records and Iraqi records, we have concluded that certain Iraq GSM transactions improperly included freight charges within the amounts that were registered with USDA. In addition, the evidence suggests that a number of exporters provided Iraq with "after sales services" in possible violation of the GSM regulations.

Our press release would also state that until the conclusion of our Inspector General's investigation and other investigations into potential irregularities in the program involving Iraq, no further guarantees for Iraq will be made available.

We would like to make the report publicly available and issue the press release by no later than close of business this Friday, May 18. Accordingly, we would appreciate your comments and clearance by no later than noon, Thursday, May 17. Please contact Alan Raul at 447-3351 with your response.

Thank you.

Enclosure

cc: Abraham D. Sotter (w/enclosure)
C. Nicholas Rostow (w/enclosure)
Robert Mueller (w/enclosure)



50.0347

United States Department of State

UNCLASSIFIED

Washington, D.C. 20520 420612

UNCLASSIFIED

May 16, 1990

MEMORANDUM FOR BRENT SCOWCROFT
THE WHITE HOUSE

Subject: Options Paper on Iraq

Attached is a paper containing a list of options for responding to recent actions and statements by the Government of Iraq. It was prepared at the request of the Deputies Committee, which met on April 16, 1990. We ask that you pass this paper to Robert Gates for his review, and circulate it to obtain the views of Deputies Committee members and concerned agencies in advance of further discussion by the Deputies Committee.

J. Stapleton Roy
Executive Secretary

Attachment:
Options Paper

Declassified/Released on 5/28/92
under provisions of E.O. 13526
by S. Tiley, National Security Council

~~SECRET~~
UNCLASSIFIED

UNCLASSIFIED

UNCLASSIFIED

~~SECRET~~IRAQ: OPTIONS PAPER

The following list of options for responding to recent actions and statements by Iraq was prepared at the request of the NSC Deputies Committee, which met on April 16, 1990. The only intention is to be comprehensive: the list does not advocate any particular option or group of options. It offers a range of choices from the largely symbolic to a virtually total economic embargo and political break with Iraq. (A non-proliferation PCC will develop specific options for steps in the area of export controls and licensing.)

ECONOMIC

Ban Oil Purchases: The largest benefit Iraq receives from the United States is through our oil purchases, which could total more than \$3 billion in 1990. PRO: Oil provides the wherewithal for Iraq's efforts to develop its own non-conventional military production capacity. A total ban on U.S. oil purchases would have some short-term impact. CON: In the longer run, Iraq would soon find other buyers. Such action might also have an impact on U.S. oil prices.

CCC Program: This is the largest program we currently have with Iraq. All the sanctions legislation on the Hill, aside from Inouye-Kasten, exempts CCC. PRO: Since Iraq's record of repayment on CCC-guaranteed loans is good and USDA's review will probably give Iraq a fairly clean bill of health, suspension of CCC at this point would be a strong political statement. CON: It would violate our policy against using food as a political weapon and hit some U.S. agricultural exporters hard. It might also lead Iraq to default on CCC-insured loans. Other countries would sell these commodities to Iraq.

Exim: In January the President waived the statutory prohibition on Exim programs with Iraq. The program could be cut off by rescinding or suspending the waiver. PRO: It would be a clear, relatively easy to accomplish public gesture containing a political message. CON: The Exim facility is not essential to the Iraqis, but its suspension would harm some U.S. producers.

Licensing/Trade: Current controls on exports to Iraq are already very restrictive, but new controls could be added to ban sale of all possible dual use items. Congress is considering new controls to ban such sales to all states in the region, including Iraq. A non-proliferation PCC will look at possible options in this area in the near future.

Classified by 5/28/92
under provisions of E.O. 12958
by A. Wang, National Security Council

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-2-

Full Trade Embargo: PRO: It would send a strong signal. CON: This would mean a virtual end to relations with Iraq. Our allies would not go along and, indeed, would jump in to take our place wherever they could.

POLITICAL - BILATERAL

Reduce Embassy Staff: PRO: Withdrawing our Ambassador or reducing Embassy staff (with parallel reductions at the Iraqi Embassy here) would clearly demonstrate our displeasure to the Iraqis. CON: It would further limit our ability to work in Baghdad and strain an Embassy staff that is already short-handed. Removing other Embassy staff (the DATT, for example) would not impress the Iraqis but could seriously reduce mission effectiveness.

Cultural: USIS runs several programs, including a self-sustaining and very popular English instruction program and a small number of exchanges. It also plans to help establish a Baghdad headquarters for U.S. archeologists working in Iraq. PRO: Cutting these programs would be a symbolic gesture. CON: Its only substantive impact would be on the persons involved.

Drug Enforcement: Iraq had its first-ever consultations with DEA this year and expressed interest in getting DEA training for a small number of police officers. PRO: Cancellation of the training would, again, have some symbolic importance. CON: It would have little practical effect for the Iraqi Government.

Intelligence Cooperation: Intelligence exchanges have waned since the Gulf War ceasefire. PRO: They still provide Iraq with limited information on Iranian military activity that would be missed. CON: Ending this contact would close off our very limited access to this important segment of the Iraqi establishment.

Presidential Message: Saddam Hussein likes the personal touch. PRO: A carefully crafted message from the President could be effective if it hit hard on our key concerns, proliferation and regional tension (conflict through a miscalculation by either Iraq or Israel), but also emphasized a continued desire for improved relations. CON: It could be construed here as being soft on Saddam.

Iraqi Opposition: The political opposition to Saddam and the Ba'ath Party, such as it is, is down-at-the-heels, mostly in exile, and (apart from some Kurds) lacks a following in Iraq. We could, nonetheless, find some public way to acknowledge it -- the Kurds especially. There is little to recommend this option.

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-3-POLITICAL - MULTILATERAL

Move Toward Normalization with Iran: PRO: A change in policy toward a more neutral or even pro-Iranian stance in international fora (UNSC, IMF, World Bank, etc.) would be a strong signal. CON: It also would send paranoia-meters in Baghdad off the end of the scale. It would raise basic questions about our policy in the Gulf and the region as a whole that would have to be addressed here. Iraq's reaction would be unpredictable.

Isolate Iraq: We could use diplomatic pressure with our friends in Cairo, Amman, and Sanaa to encourage resistance to Iraq's efforts to make itself a political and military leader of the Arab World. PRO: This would help limit Iraq's influence. CON: It could bring an unpredictable reaction from Baghdad and could, in fact, backfire in important Arab capitals.

Human Rights: We could sponsor or encourage further action on Iraq's human rights record bilaterally and in a number of international fora. PRO: We have already criticized Iraq's human rights policies on the record, and Saddam is clearly sensitive to such criticism. CON: It would be difficult to get Nonaligned support for further action on Iraq in international organizations. Saddam has demonstrated time and again that he will not allow public pressure, especially from foreigners, to influence his behavior.

Joint Action with Allies: Possible joint action on Iraq would be an appropriate subject for consultations with our allies and for consideration at the Houston Economic Summit. PRO: Concerted steps by the United States, Western Europe and Japan on such issues as technology transfer would be of much greater concern for the Iraqis than anything the U.S. might do unilaterally. CON: Consensus on concrete measures would be difficult to achieve, and failure to agree on serious joint action could even encourage the Iraqis to ignore our concerns.

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CLEAR: NEA/NGA:LEPope
NEA:EWGnehm
NEA:JHRKelly

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NATIONAL SECURITY COUNCIL
WASHINGTON D C 20508

20612

May 17, 1990

Ref Gen Adviser
has seen



SIGNED

ACTION

MEMORANDUM FOR BRENT SCOWCROFT

THROUGH: RICHARD N. HAASS *RNA*
FROM: SANDRA CHARLES *SC*
SUBJECT: NSC/Deputies Committee Meeting on Iraq

Attached at Tab I is a memorandum to the Deputies Committee principals forwarding a PCC options paper on Iraq (Tab A) tasked by the April 16 NSC/Deputies Committee meeting. The paper provides a listing of all US political and economic programs that could be used as possible leverage to respond to recent Iraqi actions and statements. The memo asks for agency positions on those options related to their specific programs by Wednesday, May 23, 1990.

Tim Deal concurs.

RECOMMENDATION

That you sign the memorandum at Tab I.

Attachments

Tab I Memo to DC Principals
Tab A PCC Options Paper

Partial Declassification of 12/12/92
under provisions of E.O. 12958
by D. Van Tassel, National Security Council

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Declassify on: OADR

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20612

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20505

May 18, 1990

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C-3553-71

MEMORANDUM FOR DR. CARNES LORDAssistant to the Vice President for
National Security Affairs**MR. ROBERT KIMMITT**Under Secretary of State for Political Affairs
Department of State**MR. CHARLES DALLARA**Assistant Secretary for International Affairs
Department of Treasury**MR. PAUL WOLFOWITZ**Under Secretary of Defense for Policy
Department of Defense**MR. DENNIS KLOSKE**Under Secretary for Export Administration
Department of Commerce**MR. RICHARD T. CROWDER**Under Secretary for International Affairs
and Commodity Programs
Department of Agriculture**MR. RICHARD J. KERR**Deputy Director of Central Intelligence
Central Intelligence Agency**ADMIRAL DAVID E. JEREMIAN**Assistant to the Chairman
Joint Chiefs of Staff**SUBJECT:**NSC/Deputies Committee Review of FCC Paper
on Iraq (S)

In response to the NSC/Deputies Committee meeting of April 16, the FCC has prepared an options paper on Iraq (Tab A), listing all U.S. economic and political programs that might be used to respond to recent Iraqi actions and statements. Based on your consideration of the options outlined in the FCC paper, I would like to have your agency's position on options for these programs

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 Declassified/Released on 5/23/92
 under provisions of E.O. 12958
 ~ ~ ~ National Security Council

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for which your agency is responsible or in which you have a direct interest by noon Wednesday, May 23. (S)

If you have any further questions, the NSC point of contact is Ms. Sandra Charles, 395-3552. (U)



Brent Scowcroft
Assistant to the President for
National Security Affairs

Attachment
Tab A PCC Paper

See May 16 for PCC Options Paper

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FAX TRANSMITTAL SHEET

092007

FROM: SANDRA CHARLES

TELEPHONE: 395-3552

FAX NUMBER: _____

	TO	PHONE	FAX NUMBER
1.	Richard Crowder	447-3111	447-8254
2.	_____	_____	_____
3.	_____	_____	_____
4.	_____	_____	_____
5.	_____	_____	_____
6.	_____	_____	_____

SPECIAL INSTRUCTIONS:

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Back —

with this press release,
the NSC has no objection
to your releasing the report.
Suggest you coordinate w/State.

CGSCS

May 18, 1990

DRAFT PRESS RELEASE

Sandy Charlem

Washington, D.C., May ___, 1990. Under Secretary of Agriculture Richard T. Crowder released today the results to date of the U.S. Department of agriculture's administrative review of the Export Credit Guarantee Program (GSM-102) for Iraq.

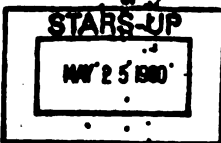
The administrative review has involved the examination and analysis, over the past seven months, of certain records pertaining to GSM-guaranteed sales to Iraq, including information submitted by exporters to the Commodity Credit Corporation (CCC), bank records and exporter records. As part of the review, a USDA team travelled to Baghdad for discussions with Iraqi officials, and review of Iraqi documents, on April 17-22, 1990. The Office of the General Counsel, the Foreign Agricultural Service, CCC and the Department of State were represented on the review team.

The administrative review focused on four particular potential problem areas identified by USDA: unusually high commodity prices in GSM sales to Iraq during the period 1985-1987; Iraqi requests to exporters for "after sales services"; attempts by Iraq to impose certain taxes on GSM transactions; and questions regarding the arrival of commodities in Iraq.

The U.S. government has not incurred any losses as a result of GSM-guaranteed sales to Iraq. Iraq has participated in the GSM program since 1983 and has purchased more than \$4.5 billion in U.S. agricultural products.

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(17)



United States Department of State

Washington, D. C. 20520

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INFORMATION MEMORANDUM

S/S 6/24

May 19, 1990

TO: P - Mr. Kimmitt

FROM: L - Abraham D. Sofaer ¹⁰²
NEA - Jack Covey, Acting ¹⁰¹

SUBJECT: Possible indictments of Iraqi officials

SUMMARY

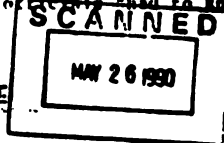
The U.S. Attorney's office in Atlanta, Georgia believes it has developed "credible evidence" to support indictments of several senior Iraqi officials in connection with a scheme to defraud Banca Nazionale de Lavoro (BNL) of \$3 billion in credit extensions. The fraud relates to aspects of the Commodity Credit Corporation (CCC) program for Iraq. Justice has not done its own assessment of the case and cannot say when the U.S. Attorney will press for approval to indict. In the meantime, USDA is preparing to release on Monday its report finding only minor irregularities in the CCC program.

DISCUSSION

In commenting on USDA's proposed report on the CCC program, the Justice Department provided USDA (and us) a status report on criminal investigations into the activities of BNL as it pertains to possible complicity of Iraqi nationals. (See Justice letter at Tab A.) The letter indicates that the U.S. Attorney for Northern Georgia believes he has credible evidence showing criminal complicity on the part of Iraqi nationals involved in the CCC program.

Specifically, the U.S. Attorney believes Iraqi officials are implicated in a scheme to defraud BNL of \$3 billion in credit extensions through the submission of misrepresentations, to demand after-sales service and stamp tax fees from certain exporters, and to collect payments from non-CCC exporters. The U.S. Attorney believes that Iraqi officials "had to know" that

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DECL: OADR



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the schemes would result in submission of materially false statements to U.S. agencies. (Iraqi officials have admitted to at least one aspect of the allegations, the demand for after-sales services.) The letter lists six senior Iraqi officials as being "under consideration" for prosecution.

Representatives of L. NEA and USDA met with Justice on Friday, May 18 in an effort to obtain a fuller explanation of the possible charges. Citing grand jury secrecy, Justice's lawyers declined to go into detail, but they did offer some general information.

Justice summarized the case as a collection of illicit activities, including misrepresentations and kickbacks, by credit brokers to get credits from BNL for Iraq. According to Justice, it is not clear whether BNL actually lost any money as a result of the misrepresentations, even though BNL may have extended credit in situations in which they might not have otherwise done so. It is clear that of the \$3 billion in suspicious loans, only a relatively small portion were covered by CCC guarantees.

The working level at Justice believes that Iraqi officials must have known that misrepresentations were being made to get the credit. However, Justice has not reviewed the evidence in sufficient detail to formulate a view on whether the evidence demonstrates the requisite criminal knowledge on the part of individual Iraqi officials. The status of the investigation is fluid, and Justice cannot predict when the U.S. Attorney will press Justice for a decision on seeking indictments.

In the meantime, USDA has completed its report on the CCC program. As we expected, the report concludes that market conditions explained most of the high commodity prices paid by Iraq from 1986-87, but that exporters sometimes used GEM credit to help finance a portion of freight financing, which at that time USDA says was inconsistent with CCC regulations. In addition, the report notes that Iraq demanded "after-sales services" during the period in question, but that Iraq has provided written assurances that this practice would cease. USDA plans to issue the report Monday. Note that after extensive negotiation, the USDA statement (Tab B) accompanying the report is silent about the status of the second tranche of CCC credits for FY90.

Attachments:

- Tab A - Letter from Justice
- Tab B - USDA statement

~~CONFIDENTIAL~~

TO: Larry Urgenson
Chief, Fraud Section
Criminal Division
United States Department of Justice

FROM: Gale McKenzie *JM*
Assistant United States Attorney
Northern District of Georgia

DATE: May 21, 1990

RE: Northern District of Georgia recommendation to
decline DOJ clearance of USDA report of
administrative review of Iraq GSM-102 Program

As stated by telephone on Friday, May 18, 1990, this office opposes any DOJ clearance of the above-referenced USDA report for the following reasons:

1) The report contains inaccurate and misleading information. Although not prepared by DOJ, the requested DOJ clearance gives the report further credence before Congress and puts DOJ in a position of misleading Congress.

Specifically, the report fails to clearly state that the Iraqis recently provided false documents and information to USDA when payment of after sale services in the tobacco industry was denied. The report also incorrectly finds that no kickbacks or payments were made from GSM sale proceeds. Both of these items were specifically brought to the attention of the USDA by DOJ and by the USDA OIG. Other examples could also be cited, but these are crucial enough to make our point.

For obvious reasons with pending criminal cases DOJ cannot rewrite the report to correct the factual assertions, but neither can such inaccuracies be cleared for the stated purpose of dissemination to Congress and the public.

2) The USDA report references many contacts with this office which are portrayed inaccurately. The recent Richard's letter to USDA was to have corrected the continuing USDA assertions that no information has been provided to them. While USDA cannot reveal the content of such information, it is certainly inaccurate to flatly state that none was provided.

The USDA report also inaccurately states that the Northern District of Georgia could provide no reason to decline further CCC guarantees. This is a false and misleading characterization of the position taken by this office. First, specific non Rule 6(e) information very detrimental to the Iraqi position was provided to USDA as reflected by the Richard's letter. Second, the position of this office was that having provided such non-protected relevant information, we could and would not offer opinions, decisions or advise on policy matters such as extension of further CCC guarantees on exports to Iraq. Such a Northern District of Georgia response to USDA inquiries cannot properly be characterized as "no reason to decline further CCC guarantees could be provided."

3) References to contacts with the Northern District of Georgia criminal investigation are woven throughout the 33 page

USDA report giving the appearance that much of the USDA report text could have been obtained from or verified by the criminal investigation. A DOJ clearance could further bolster such a conclusion. The USDA report as it stands will certainly give rise to numerous due process attacks in the criminal case alleging improper release of information and improper use of a criminal investigation for administrative and civil purposes.

4) The name of Entrade, a major criminal defendant, with inaccurate details of that defendant's activities are listed repeatedly and prominently throughout the USDA report. Again, USDA has previously been advised of many of these inaccuracies.

The Entrade portion of the USDA report is extremely detrimental to criminal prosecution. First, the government will have to show cause that the publically released Entrade information did not come from the criminal investigation which will entail hearings and defense discovery beyond that otherwise permissible. Second, the Entrade defense team will use the inaccurate facts released by USDA at the highest levels to challenge the good faith return of an indictment, to frame devastating cross examinations at trial, and even to call USDA officials as defense witnesses (which would subject all the recent intergovernmental discourse regarding who was advised of what, when and where to public disclosure).

For the above stated reasons not only is DOJ declination of the requested clearance appropriate, but affirmative DOJ objection to publication of the USDA report is also indicated.

USDA has cited no compelling reason for release of this report to Congress or to the public. Indeed, there can be no reason to release such inaccurate or misleading information.

Although this position of our office was expressed by telephone on Friday, the position was taken after hurried review of the USDA report which you had just faxed to us. Through this memo, the Northern District of Georgia reconfirms its position after being able to study and evaluate the report at length over the weekend.

Thank you as always for considering the input of this office when formulating DOJ decisions regarding the BNL-Atlanta investigation.

Also please send for our file a copy of the Richard's letter to USDA which was composed from our draft.

*Attached to Original
is 5/21 version of USDA
Admin Rev.*

*See Attached [Signature]
on Original*

NEWS

United States
Department of
Agriculture

Office of the
Secretary

000628

Press Secretary
Room 309-A
Washington, D.C. 20000

Kelly Shipp (202) 447-4623

ADMINISTRATIVE REVIEW OF IRAQ GSM-102 PROGRAM

WASHINGTON, May 21—Under Secretary of Agriculture for International Affairs and Commodity Programs Richard T. Crowder released today the results to date of the U. S. Department of Agriculture's administrative review of the Export Credit Guarantee Program (GSM-102) for Iraq.

The administrative review has involved the examination and analysis, over the past seven months, of certain records pertaining to GSM-guaranteed sales to Iraq, including information submitted by exporters to the Commodity Credit Corporation (CCC), bank records and exporter records. As part of the review, a USDA team travelled to Baghdad for discussions with Iraqi officials, and review of Iraqi documents, on April 17-22, 1990. The Office of the General Counsel, the Foreign Agricultural Service, CCC and the Department of State were represented on the review team.

The administrative review focused on four particular potential problem areas identified by USDA: unusually high commodity prices in GSM sales to Iraq during the period 1985-1987; Iraqi requests to exporters for "after sales services"; attempts by Iraq to impose certain taxes on GSM transactions; and questions regarding the arrival of commodities in Iraq.

The U.S. government has not incurred any losses as a result of GSM-guaranteed sales to Iraq. Iraq has participated in the GSM program since 1985 and has purchased more than \$4.5 billion in U.S. agricultural products.

**USDA's Administrative Review can be found in Part I of this hearing
record**

United States Department of State

Washington, D.C. 20520

5/21 1600 JV

Dear Mr. Chairman:

This letter forwards the State Department's views on the Berman Bill, H.R. 4585, which imposes sanctions on Iraq.

The bill imposes open-ended sanctions against Iraq without linking them to any policy objective. It would eliminate Presidential flexibility in dealing with an important but difficult country, without specifically furthering any U.S. national interests.

The President has made clear his concern at the recent Iraqi attempts to smuggle capacitors -- with possible use in nuclear weapons -- out of the U.S. He has expressed his outrage at the irresponsible threats issued by Iraq's President Saddam Hussein. There have always been significant U.S. concerns about Iraqi behavior, and in fact the U.S. Government has long imposed many of the measures the legislation would mandate. The State Department generally prohibits the sale or transfer of U.S. Munitions List items to Iraq. Fifty chemicals identified as potentially usable in chemical weapons programs are prohibited for export to Iraq under the authority of the Export Administration Act. Items on the Commodity Control List deemed likely to aid Iraq's nuclear, missile, or other proliferation programs are also denied.

Some provisions of the bill would require changes in current U.S. policy. These include Section 2(c) - Exports of Dual Use Items; Section 2(f) - Assistance from International Institutions; and Section 2(g) Denial of Access to the Export-Import Bank.

As noted above, the U.S. already denies Iraq items likely to be of use to nuclear, missile or chemical weapons items. We are currently reviewing our export regulations to see if we can further clarify U.S. controls on exports of technology related to these items. Such action is taken in cooperation with the non-proliferation efforts of our allies in order to ensure its

The Honorable
Dante B. Fascell,
House of Representatives.

effectiveness. The relatively small number of potential dual use items approved for sale to Iraq are not central to our non-proliferation efforts. Prohibition of such sales would deny U.S. exporters access to the Iraqi market without impairing Iraq's ability to obtain the items in question.

The legislation would subject to political criteria U.S. votes in International Financial Institutions, such as the IMF, which seek to support a stable, market-oriented economy. The United States traditionally has tried to avoid politicization of the IMF, which would undermine the Fund's technical and monetary character. By basing IMF actions on such criteria, the United States would create a precedent others would inevitably try to exploit in ways inimical to U.S. interests. Furthermore, during the last 20 years, Iraq has not shown any interest in using IMF resources and shows no interest in using them now. Such politicization would divert the IMF's attention from pressing needs in the international economic system, including debt strategy and restructuring of Eastern Europe. In addition, it is the opinion of the Department of Justice that legislation mandating U.S. votes in International Financial Institutions would constitutionally interfere with the President's prerogative with respect to the conduct of foreign policy.

The short-term U.S. Export-Import Bank credit insurance is intended to promote the export of U.S. industrial goods. On January 17 President Bush signed a waiver to the FY 89 Foreign Operations Appropriations Act to enable this program to continue on national interest grounds.

The President needs flexibility in dealing with Iraq on such important issues as the Arab-Israeli Peace Process, in which Iraq has the capability to play a positive -- or negative -- role. The Administration maintains an active review of our policy towards Iraq with a view towards assessing how best to further our interests in this thorny bilateral relationship. The Administration's approach to Iraq has been to deal firmly with problems as they arise within the context of broad, many-faceted relations. Imposition of rigid, legislated sanctions will not support vital U.S. interests in the region, and might well undercut important U.S. objectives.

Experience has shown sanctions are most effective when imposed multilaterally. At this point neither we nor our allies are contemplating sanctions against Iraq. Sanctions

-3-

required by H.R. 4585 would therefore be symbolic only, with the costs borne by the United States.

For the above reasons, the State Department opposes the Berman bill.

The Office of Management and Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

Sincerely,

Janet G. Mullins
Assistant Secretary
Legislative Affairs

Enclosure:

Six Copies of
Proposed Report.



GENERAL COUNSEL

DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250

May 22, 1990

NOTE FOR JAY BYBEE
WHITE HOUSE COUNSEL'S OFFICE

FROM: Alan Charles Raul
General Counsel

Jay,

As discussed.

A. Raul
-Alan



The Under Secretary of Agriculture
for
International Affairs and Commodity Programs
Washington, D.C.

MAY 23 1988

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MEMORANDUM FOR THE HONORABLE BRENT SCOWCROFT
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS

FROM: *RC* Richard T. Crowder
Under Secretary

SUBJECT: USDA's Position on Options in NSC/Deputies Committee
Review of PCC Paper on Iraq(S)

The options paper properly characterizes the impact of sanctioning Iraq with respect to CCC export credit guarantees. Iraq is an important market for over twenty U.S. agricultural commodities sold under the credit guarantees of the GSM-102 program. However, it cannot be overemphasized that any constraint on CCC credit guarantees must not be based on a foreign policy rationale.

Notwithstanding the above considerations, additional GSM-102 and GSM-103 credit guarantees to Iraq should not be made over and above the \$500 million already authorized in fiscal 1990 until the questions concerning program irregularities with sales to Iraq are cleared up.

USDA wants to sell as many agricultural commodities abroad as possible, including to Iraq, but integrity of the program supersedes the desire to sell at any cost.

Classified by *R. Crowder, GS*
Derived from *NSC Document 20612*
Declassify on *OADR*

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U.S. DEPARTMENT OF AGRICULTURE

FROM: *RT* Richard T. Crowder
UNDER SECRETARY
International Affairs and Commodity Programs

RT
AV

001713

DATE: May 24, 1990

TO: OIG-Leon Snead

Re: Request to Review GSM Sales
Transactions (attached)

Leon:

Is there any way at all to complete
this earlier? The economic impact of
delay is huge.

Thanks.

Attachment



United States
Department of
Agriculture

Office of
Inspector
General

Washington,
D.C.
20250

AV

001714

MAY 23 1990

*Leon
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And a check*

SUBJECT: Request to Review GSM Sales Transactions

TO: Richard T. Crowder
Under Secretary for International Affairs and Commodity Programs

This is in response to your May 8, 1990, memorandum to me on the above subject. You requested that we review GSM 102/103 sales activities to determine whether purchasers had requested "after-sales services" and whether transportation costs were improperly included in the GSM transactions.

We are currently conducting an audit of the GSM 102/103 Program sales activities in Fiscal Year (FY) 1988. We will expand our coverage to include selected transactions from FY 1987 and FY 1989. One of the objectives of this audit is to determine the cause of the large differences between the price in the GSM sales agreement and those quoted from other official sources. Our audit will focus on GSM sales transactions with the largest differences in prices. The scope of this audit will include sufficient coverage of exporters' records to address after-sales services. We also plan to determine whether freight costs have been included in credit guarantees, and whether such inclusion was in accordance with the Foreign Agricultural Service's policy.

Your staff identified three exporters of wood products who may have furnished after-sales services to Iraq and one exporter who may have included freight charges in CCC guarantees. These four companies are already under review, as part of the ongoing Banca Nazionale del Lavoro (BNL) investigation. Information concerning the four exporters will be provided to you as soon as it is determined that release of the information will not compromise ongoing criminal investigations.

We anticipate completing the audit in September 1990. We will keep you advised as problems are identified. If you have any questions, please call me or have a member of your staff call James R. Ebbitt, Assistant Inspector General for Audit, at 447-6945.

Leon S. Broad
LEON BROAD

Deputy Inspector General

cc: FAS Administrator
General Counsel

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40645

NATIONAL SECURITY COUNCIL

WASHINGTON D.C. 20505

May 24, 1990

MEMORANDUM FOR MR. CARNES LORD
 Assistant to the Vice President
 for National Security Affairs

MR. STAPLETON ROY
 Executive Secretary
 Department of State

MS. EMILY L. WALKER
 Executive Secretary
 Department of Treasury

COL GEORGE P. COLE, JR.
 Executive Secretary
 Department of Defense

MR. ROBERT S. ROSS, JR.
 Executive Assistant to the Attorney General
 Department of Justice

MS. SUSAN NELSON
 Executive Assistant to the Secretary
 Department of Agriculture

MR. JOSEPH S. CASPER
 Director of Executive Secretariat
 Department of Commerce

DEAN THOMAS E. WHITE, JR.
 Executive Assistant to the Chairman
 Joint Chiefs of Staff

MR. LAWRENCE SANDALL
 Executive Secretary
 Central Intelligence Agency

SUBJECT: NSC/Deputies Committee Meeting on Iraq (S)

There will be a meeting of the NSC/Deputies Committee on Tuesday, May 29, at 4:30 p.m. in the White House Situation Room to discuss U.S. policy options for Iraq. An agenda for the meeting is attached. (S)

Please notify my office of your agency's participants (principal plus one) for this meeting. (U)

DECLASSIFIED/REMOVED ON 10/13/92
 BY C. VAN TATE, NIS/NSA Security Council

William V. Sittmann
 Executive Secretary

Attachment
 Tab A Agenda

cc: Andy Card

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20645

THE NSC/DEPUTIES COMMITTEE MEETING

DATE: May 29, 1990
 LOCATION: White House Situation Room
 TIME: 4:30 - 5:30 p.m.

IRAQ

Agenda

- | | |
|---|--------------|
| I. Intelligence Update | CIA |
| II. Review of U.S.-Iraqi Programs and
Policy Options | State |
| III. Summary | Robert Gates |

Dec. 1990: Approved on 10/13/90.
 under provisions of F.A. 12120
 by D. Van Tassel, National Security Council

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DEPARTMENT OF THE TREASURY
WASHINGTON

MEMORANDUM FOR ASSISTANT SECRETARY DALLARA

FROM: Stephen J. Canner
Acting Deputy Assistant Secretary
Trade and Investment Policy

SUBJECT: Possible NSC Meeting on CCC/Iraq Next Week

On the basis of a recent trip by staff to Iraq, USDA has concluded that there have been improprieties in its credit guarantee program in Iraq. As a result, USDA intends to shut down the Iraq program and has been so advising the Hill this week. Agriculture had planned to release a report on the trip to Iraq today after the markets close and (we believe) announce termination of the program.

NSC has asked Agriculture not to go public about closing down the FY90 Iraq GSM-102 program without interagency review. USDA may still release the trip report, since it apparently (we have not seen it) contains no policy recommendations. We understand that NSC plans to convene a meeting next week to discuss the U.S. posture vis-a-vis Iraq.

cc: Ms. Holiday, Mr. Niehuss

IRAQ

TALKING POINTS FOR MAY 29 ORAL BRIEFING FOR NSC MEETING

--Meeting has been initiated by NSC staff because they want to prevent the CCC credit program from being cancelled as it would exacerbate the already strained foreign policy relations with Iraq.

--Agriculture had planned to put out a press release on May 21 that said the program was being suspended until the investigations into improprieties in the program were completed.

--The NSC prevailed on Agriculture to say only that their investigation showed that improprieties may have occurred and remained silent on a suspension.

--In fact, there is a suspension in effect, Agriculture has already briefed congress on this prospect, and the press has reported on the investigation.

-- We believe that further CCC programing for IRAQ should be suspended if USDA believes it is warranted under its own statutes.

--The likelihood that Iraq will stop paying on the CCC credits may depend on whether Assad feels that there is the possibility of new credits under the program at a later date .

--If Iraq does stop paying there will be a budget cost as USDA starts paying off claims of the banks whose credits were insured.

--Iraq may want to reschedule its repayments, but will only do so under a bilateral agreement, while the U.S. will only go through the Paris club.

Source: Treasury Department

Declassified By: Frank Machak
Director, Office of FOI, Privacy,
and Classification Review

United States Department of State
Washington, D. C. 20520

July 27, 1992

BRIEFING MEMORANDUM

S/S

TO: P - Mr. Kimmitt

FROM: NEA - John M. Kelly

SUBJECT: NSC Deputies Committee Meeting on Iraq
May 29, 1990
White House Situation Room
4:30 pm

I. KEY POINTS

There continues to be significant pressure in some quarters, from the Hill in particular, for a strong response to recent Iraqi actions and statements. On April 16, the NSC/DC asked for a paper listing possible options for action on Iraq (Tab B). We need to find a formula that will make clear, both here and in Iraq, our serious concerns over an abysmal human rights record, threats, and nuclear, chemical, and missile proliferation without torpedoing our relationship with an increasingly important state. Richard Haass believes that a full NSC meeting will be needed before final decisions can be taken.

II. INTER-AGENCY POSITIONS

The options paper is broken down into three sections. There is unlikely to be great enthusiasm for any of the political - bilateral options: they are paltry, mainly symbolic and would damage our ability to operate in Iraq without making any great impression on the Iraqis.

EXIM and CCC are the only two programs of significance we have with Iraq.

CCC Program: The Iraqis have made May 31 the deadline for a response to their request for a second \$300 million tranche of CCC credit guarantees for FY90, and the chief purpose for this DC meeting is to force a decision by this deadline. Iraq wants to deny the second tranche on the grounds of irregularities in the program. It could then tell U.S. exporters that the denial was on technical rather than political grounds.

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ED believes the answer is for USDA to keep the Iraq program under review to retain the option, both on economic and political grounds, to reopen it. Based on past form, Treasury, speaking also for CMS and the Fed, would support denial of the second tranche because of creditworthiness concerns. NSC staff is opposed to action to suspend either CCC or EXIM on the grounds that we would be shooting ourselves in the foot.

Exim Program: Exim has never been more than lukewarm in defense of its \$300 million short-term rotating credit insurance facility for Iraq. Congress sought to suspend the program in the FY80 Foreign Appropriations Bill but included a Presidential waiver, which was issued earlier this year. The NSC, with the support of DoD and possibly Commerce, strongly favors keeping this program on the same grounds as CCC.

Nonproliferation: A Nonproliferation PCC will be held to develop options for political and multilateral steps to affect Iraqi behavior and improve controls on proliferation-related exports. NSD-26 noted that this was the area in which the relationship was most likely to grow. T, PH and Commerce believe we need to consider expanding current controls on exports to Iraq. We already have a ban on nuclear cooperation with Iraq and will not approve exports of dual-use technology, controlled for possible nuclear applications or on the MTCR Annex, if they are deemed likely to contribute to Iraq's nuclear or missile programs. Defense and CIA are generally willing to support initiatives to limit sales of such technology to Iraq. ED is less eager, but will support effective chemical equipment controls. NSC would like to concentrate action in this area, but specific recommendations must await the Nonproliferation PCC.

Legislation: Sen. D'Amato attempted May 17 to attach sanctions legislation to the Pell-Heins CDM bill. He failed: Dentsen and Garn raised jurisdictional problems. Dole, Matsenbaum, Murkowski and Specter -- all of whom saw Saddam this year -- spoke against sanctions, as did Cochran. An understanding was reached that EPAC would hold hearings on Iraq in June or July. Sen. Berman introduced free-standing sanctions legislation (with CCC specifically excluded from sanctions) now pending in HPAC. State, Treasury, and Justice, each for reasons of its own, continue to oppose the Berman Bill. Sen. Inoué and Sen. Kasten drafted a bill imposing a complete economic embargo on Iraq. They failed in an effort to attach it to the Panama-Nicaragua supplemental and are looking for another vehicle. Many members are waiting to see what the Administration will do with regard to Iraq, but we can be sure there will be continued efforts to move some type of sanctions legislation.

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III. PROPOSED STRATEGY

Our leverage is slender. The EXIM and CCC programs are essentially export promotion measures. Their cancellation would hurt U.S. exporters. The Iraqis will find others to sell them food and other things they need. If the Iraqis should stop payment, the Exim exposure is \$200 million and USDA is guarantor of over \$2 billion in commercial credits. Nevertheless, we need to send a signal to both Iraq and Congress that we are prepared to take action as a concrete response to recent Iraqi actions.

CCC will be the main point of contention. Administration policy is that food will not be a political weapon. One possible course would be to put the program on ice by keeping it under permanent review in hopes that Iraqi performance would improve to the point that we could reopen it in the next fiscal year.

A more visible and immediate action would be to withdraw the Presidential waiver issued in January that permitted EXIM to resume operation. What interests Iraq is the prospect of expanded investment to assist reconstruction. There are other key players (France, Germany, U.K., Japan), and while we would hope they would follow our lead, it is more likely that they would jump in to carve up our market share.

The DC will take place while the Baghdad Arab summit is in full swing. We would hope any negative decision can be tightly held until the summit is over and, indeed, would probably want to make it dependent to a degree on the summit's outcome.

Finally, the Justice Department has indicated that the Assistant U.S. Attorney is considering the indictment of six Iraqi officials in the DMJ case. It could be argued in the DC that it is imprudent to proceed with the CCC program when criminal indictments may be only weeks away. On the other hand, there seem to be real differences within DOJ over just how solid the evidence of official Iraqi involvement is.

- We understand Nick Rostow will convene lawyers from various agencies to discuss the legal questions on the morning of May 29..

Attachments: Tab A -- Talking points
 Tab B -- Options paper (Secretary Review)
 Tab C -- Conclusions Section of USDA report

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-3-TALKING POINTSGeneral

- We need to respond to recent Iraqi actions. We also need to preserve our ability to deal with the Iraqis in the longer term. Iraq is an important state.
- In Saddam Hussein's exchange with Sen. Dole and during the Masses visit we received clear indications that the Iraqis would like to put relations back on track.
- Iraq's response in areas such as nuclear, missile and CBR proliferation will determine how relations develop.
 - o The IAEA has stated publicly that there is no evidence that Iraq has diverted materials from its civilian nuclear program.
- We also want to make sure the decisions we take here do not become issues at the Arab summit currently taking place in Baghdad.

CCC Program

- CCC is our largest single program with Iraq and is of great concern to the Iraqi Government.
- USDA has a legitimate concern that we not appear to violate standing policy that forbids the use of food sales for political purposes.
- Whatever USDA eventually decides, we would insist that any public statements be consistent with the findings of the USDA review and not open us to charges of dealing in bad faith.

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- If USDA feels it cannot go forward immediately with the program, the best solution may be to keep it under review until we feel we can act positively on it.

Exim

- Circumstances have changed drastically since the President waived congressional sanction on Iraq's Exim program in January.
- This program, like the CCC program, basically benefits U.S. exporters.
- If we decide to withhold CCC for now, without explicit rejection of the second tranche, our point will have been made. We should not rescind Exim as well. Others believe we should cancel one program or the other to show that this is not business as usual.

Licensing/Trade

- There is no need for us to be apologetic about our current regime of export controls for Iraq: they are effective. The Iraqis had to smuggle the items they needed. When they smuggled, they were caught.
- There are a number of proposals for expanding export controls on Iraq, and they deserve serious consideration. But our export controls would have to be matched by other suppliers to be effective -- and fair to our exporters.

Proliferation

- The Nonproliferation PCC will meet June 6 to develop a strategy for Iraq.
- We are trying to persuade other countries (e.g., France, USSR, FRG, Japan) to raise nuclear/missile/CBW concerns directly with Iraq's Arab friends, just as we have done.
- We already ban nuclear cooperation with Iraq. Most of our allies, including the French, agree with this policy.

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- This international pressure may have some impact on Iraq's behavior and rhetoric. We can coordinate our diplomatic efforts at and on the margins of the relevant multilateral meetings (e.g., June Australia Group meeting, July MTCR meeting, June IAEA meeting, NPT Review Conference, etc.) and in our bilateral discussions with key countries in a position to influence Iraq.

Human Rights (for use as appropriate)

- Our country report for 1989 characterized Iraq's human rights record as abysmal.
- Iraq's repressive political regime prohibits free political discourse and imprisons those who dare to speak out; it operates an extraordinarily repressive secret police which frequently resorts to the torture of prisoners.
- Iraq has promised that the new Constitution currently in preparation will grant to citizens of Iraq all the rights of a democratic system.
- We await the promulgation and entry into effect of that Constitution and need, thereafter, to determine whether its provisions lead to a more open society.

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The following are the report's conclusions about past conduct of the Iraq GSM-192 program. They are as follows:

(1) USDA analysis indicates that during the period 1983-1987, sale prices to Iraq for corn, rice and sugar under the GSM-192 program were much higher than price levels in other markets. Price levels paid by Iraq appear to be at least \$10/MT higher than benchmark world prices for rice and corn, and \$13-16/MT higher for sugar. It appears that because of supplier perceptions that Iraq was a high risk market during the Iraq-Iran war, and due to the limited number of U.S. suppliers who were willing to participate in that market, higher prices and larger profit margins could be obtained. In addition, Iraq's policy of seeking freight financing which few suppliers were able or willing to provide, also raised price levels. In the case of sugar, it appears that the tight supply of refined sugar that could be certified as U.S. origin, as required under the GSM program, also accounted for a substantial portion of the high prices bid. Records indicate that there were very few U.S. suppliers participating in the Iraq GSM market, and all were bidding high prices.

(2) In some of the higher priced transactions, a portion of the high reported FOB prices -- approximately \$8-10/MT, represented an artificial reallocation by the exporter of either freight costs or freight financing charges. In at least two cases reviewed, it is clear the FOB price reported to CCC for guarantee purposes was \$8-10 higher than the FOB portion of a CIF bid made by the exporter to by Iraq. In two other cases, the FOB price reported to CCC by the exporter was \$8-10 higher than Iraq's FOB counteroffer. Iraq agreed to the request of the exporter to open FOB letters of credit at these higher prices. At least one exporter used this "allocation" technique to shift some of the freight financing of a CIF sale to the loan guaranteed by CCC during a time period in which CCC did not permit financing of freight under its guarantees. Inaccurate information may have been submitted to CCC in connection with certain of the GSM transactions described above.

(3) USDA administrative review uncovered no evidence to suggest that there has been diversion of commodities sold to Iraq. The lack of "proof of arrival" in either bank or exporter records appears to be linked to the complexity of overland shipment system that Iraq had to develop after its Basra port closed during the height of the Iran-Iraq war. Although it appears that Iraq maintains records to establish proof of arrival for its GSM purchases, actual confirmation of this would involve the translation (from Arabic) and compilation of literally hundreds of documents including trucking manifests, customs documents and warehouseman lists.

(5) Iraq has also requested some exporters to assume responsibility for paying a domestic Iraqi "stamp tax" in connection with GSM transactions. Iraq's Deputy Minister of Trade has confirmed in a letter to TCC that Iraq has changed its policy and will, in the future, specifically exempt GSM transactions from application of this tax.



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

June 1, 1990

CO1250

MEMORANDUM FOR THE SECRETARY

FROM:

Alan Charles Raul *AR*
General Counsel

SUBJECT:

End of Week Report

2. Iraq. I received a further briefing this week from the Department of Justice regarding the Atlanta investigation into the Banca Nazionale del Lavoro and related matters. I briefed the Deputy Secretary on certain new issues in the investigation.

~~There was an NSC Deputies Committee meeting on the Iraq GSM program this week. I thought I should attend that meeting, but the Deputy Secretary decided that Ann Veneman should attend and that I should not. I have not been to the meeting yet, but I understand that it was decided that no additional government funds and the first \$500 million would be provided to Iraq this year. The decision apparently turned on the various investigations that my office has been monitoring closing. Last night, the NSC's Special Assistant to the President for Asian Affairs, Richard Haass, mentioned to me that there was supposed to be a cable sent to Iraq this week informing them of the decision.~~



United States
Department of
Agriculture

Office of the
General
Counsel

Washington,
D.C.
20250-1400

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WITH CLASSIFIED ATTACHMENT**

June 1, 1990

**MEMORANDUM FOR THE SECRETARY
DEPUTY SECRETARY**

FROM: Alan Charles Raul *ACR*
General Counsel

SUBJECT: Iraq

Attached for your information is a copy of the cable Secretary Baker sent today to the U.S. Embassy in Baghdad. The cable directs the Agricultural Attache to advise the Government of Iraq that we cannot make a decision on a second tranche of the FY 1990 GSM program until the pending investigations are "completed satisfactorily." Also, please note that the Iraqis are to be told that "our inability to release the second tranche of the CCC guarantees at this time is dictated by administrative and legal considerations."

Attachment

cc: Kelly Shipp (w/attachment)

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ABSTRACT OF SECRETARIA' CORRESPONDENCE ⁰⁰³3: ☒ The Secretary☐

The Deputy Secretary

Control No: EXA90674

INFORMATION MEMORANDUM

Date: June 11, 1990

From: Under Secretary for Export Administration
 Prepared by: Michael P. Galvin, AS/EA/EXA, 377-5492
 Subject: Interagency Meeting on Iraq

On May 29, 1990, the National Security Council (NSC) chaired a Deputies Meeting to consider possible changes in the U.S. Government's current policy toward Iraq in response to recent actions and statements by the Government of Iraq. After some discussion, all Departments represented unanimously agreed to take action in three areas: export controls, Exim Bank and Commodity Credit Corporation.

Export Licensing: It was agreed that the United States should take the initiative to further improve multilateral application of the Missile Technology Control Regime (MTCR). Commerce was asked to table a workplan to accomplish this, for consideration at a June 12 Policy Coordination Committee on Non-Proliferation (PCC-NP) meeting. Features of the plan will include:

- expanding membership in the MTCR;
- a review of the current list of commodities controlled by the MTCR; and
- methods to strengthen compliance, enforcement and information sharing.

Export-Import Bank: Exim Bank funds will continue to be made available to Iraq. However, funds will be made available subject to project-by-project scrutiny.

Commodity Credit Corporation (CCC): The CCC program will be continued for Iraq, long enough to complete the current round (the "first tranche") of loan guarantees. The second part of planned loan guarantees will be delayed pending the results of investigation into allegations of fraud and abuse of the loan made during the first tranche.

Classified by: / Date
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Classified By: Multiple Sources
 Declassify By: OADR

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Michael P. Galvin				
18 JUN 1990				

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TELEPHONE - 225-3001
 TELETYPE - 225-3000

June 11, 1990

The Honorable James A. Baker, III
 Secretary of State
 U.S. Department of State
 Washington, D.C. 20520

Dear Mr. Secretary:

For the past six months, the Subcommittee on Criminal Justice has been reviewing certain allegations concerning the Atlanta branch of Banca Nazionale del Lavoro and the U.S. Attorney's investigation of that bank. In January, I requested that the General Accounting Office examine loans through Lavoro to Iraqi buyers that were not authorized by higher level bank officials, as well as suggestions that those loans may have been used to purchase machinery for weapons technology.

The Subcommittee has heard allegations about the State Department's efforts to influence the U.S. Attorney's investigation. Those allegations have been confirmed by State Department officials quoted in yesterday's New York Times. According to the Times' article, the State Department and the Justice Department have held "numerous" meetings on the investigation, and the State Department has told the Justice Department not to be "unnecessarily severe in their handling of the case" for fear of jeopardizing U.S.-Iraqi relations.

Such State Department strong-arming of the Justice Department is wholly inappropriate and amounts to the subjugation of a domestic law enforcement investigation for questionable foreign policy goals. Law enforcement cannot take a back seat to international machinations. I therefore strongly urge that the State Department refrain from further interfering in the Justice Department's investigation of the Lavoro scandal.

Sincerely,

Charles E. Schumer

CHARLES E. SCHUMER
 Chairman
 Criminal Justice Subcommittee

DEPARTMENT OF STATE
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USDA FOR US CROWDER; FAS FOR ADMINISTRATOR ANDERSON;
GSM DICKERSON; MACKIE, CAMP; REYNOLDS & KUNKEL, EC

E.O. 12356: DECL: OADR
TAGS: EAGR, ETRD, IZ
SUBJ: IRAQ MINISTER OF TRADE/FINANCE DISCUSSES USDA
CSM CREDIT GUARANTEE PROGRAM

1. (C-ENTIRE TEXT)

2. SUMMARY: THE GOI HAS OFFICIALLY INFORMED US, "IN THE SPIRIT OF CLARITY AND FAIRNESS," THAT IF THE USG SHOULD DECIDE TO EXCLUDE IRAQ FROM THE CCC PROGRAM, IRAQ WILL BEGIN TO TREAT ITS USG OBLIGATIONS AS IT TREATS THOSE TO ALL OTHER CREDITOR STATES (I.E., NEGOTIATE A RESCHEDULING OF CCC DEBTS), BUT ONLY AGRICULTURAL TRADE WITH THE USG WILL BE ADVERSELY AFFECTED. AMBASSADOR EMPHASIZED WE EXPECT IRAQ TO

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PAGE 02 OF 05 BAGHDA :03084 00 OF 02 091415Z 015987
HONOR ITS CONTRACTUAL OBLIGATIONS TO THE USG. END
SUMMARY.

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3. IN HIS CAPACITY AS ACTING MINISTER OF FINANCE, DR. MOHAMED HENDI SALEN JULY 9 CALLED IN AMBASSADOR TO DISCUSS THE FUTURE OF THE USDA GSM CREDIT GUARANTEE PROGRAM FOR IRAQ. AGRICULTURAL TRADE OFFICER ACCOMPANIED.

4. DR. SALEN BEGAN BY ASKING WHAT WERE THE NEAR FUTURE POSSIBILITIES FOR ADDITIONAL AGRICULTURAL CREDITS? WILL THE GSM CREDIT GUARANTEE PROGRAM BE CONTINUED IN THE NEXT FISCAL YEAR? WHAT IS THE FUTURE OF THE \$00 MILLION DOLLAR PORTION NOT MADE AVAILABLE THUS FAR THIS YEAR? WILL IT BE RESERVED FOR FY 1991?

5. DR. SALEN, IN A FRIENDLY BUT DECISIVE MANNER, STATED THAT IT WAS IMPORTANT IN HIS CAPACITY AS THE MINISTER OF FINANCE, TO KNOW OF USG PLANS. IRAQ HAS BEEN GIVING UNIQUE PAYMENT PRIORITY TO THE UNITED STATES. (COMMENT: OUR EUROPEAN AND JAPANESE COLLEAGUES ARE BITTER THAT THE GOI HAS BEEN PAYING ONLY USG OBLIGATIONS IN CASH, IN FULL AND ON TIME FOR AT LEAST FIVE YEARS. END COMMENT).

6. THIS REPAYMENT PRIORITY TO THE UNITED STATES IS STILL BEING KEPT, SALEN STATED. NO DECISION HAS BEEN MADE TO CHANGE THIS GOI POLICY. BUT IF THE USG MAKES THE DECISION TO TERMINATE THE "AGRICULTURAL LOAN", AS HE CALLS IT, A CHANGE IN THE IRAQI METHOD OF PAYMENT DEFINITELY WILL BE MADE. REPAYMENTS TO THE UNITED STATES WOULD HAVE TO BE NEGOTIATED ON AN ANNUAL BASIS AS CURRENTLY IS DONE WITH ALL OTHER CREDITOR STATES, I.E. SINCE IRAQ WILL NO LONGER BE RECEIVING NEW CREDIT GUARANTEES, THE UNITED STATES WILL NO LONGER RECEIVE SPECIAL REPAYMENT CONSIDERATION.

7. DR. SALEN MADE IT CLEAR THAT THIS POTENTIAL CHANGE IN REPAYMENT POLICY REFERS ONLY TO THE "AGRICULTURE

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9.

10. SALEN ACKNOWLEDGED THAT AGRICULTURAL COMMODITY PURCHASES IN LARGE MEASURE RECENTLY HAVE BEEN MADE FROM COUNTRIES OTHER THAN THE UNITED STATES. MOST OF THESE PURCHASES, HE SAID, HAVE BEEN MADE WITH DEFERRED PAYMENT FACILITIES. HE REFERRED SPECIFICALLY TO RICE AND WHEAT. (FYI FOLLOWING THE MEETING AN ATTENDING MIN TRADE OFFICIAL STATED THIS REFERRED PRIMARILY TO CONTINUING CREDIT FROM CANADA AND AUSTRALIA FOR WHEAT

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AND THAILAND FOR RICE. (END FY11).

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11. SALEN CONCLUDED HIS INITIAL COMMENTS BY SAYING THAT HE DID NOT LIKE EVEN TO DISCUSS THE POSSIBILITY OF A CHANGE IN REPAYMENT POLICY TO THE UNITED STATES BUT IT IS IMPORTANT TO BE CLEAR AND TO BE FAIR: THAT CHANGE WOULD HAVE TO HAPPEN IF THE "AGRICULTURE LOAN" IS TOTALLY STOPPED.

12. AMBASSADOR SAID SHE WAS GRATEFUL FOR THE FORTHRIGHTNESS OF THE MINISTER'S APPROACH. SHE JOKED THAT SHE HOPED HIS SERVING HER, FOR THE FIRST TIME, UNSWEETENED COFFEE DID NOT SIGNAL THE FUNERAL OF OUR TRADE RELATIONSHIP. "NO, NO, NO," HE RESPONDED EMPHATICALLY.

13. AMBASSADOR EMPHASIZED WE VALUE OUR TRADE RELATIONSHIP WITH IRAQ, BUT IT IS IMPORTANT THAT IRAQ UNDERSTANDS THAT THE USG WOULD BE DISTRESSED IF THE GOI WERE TO DECIDE NOT TO HONOR ITS CONTRACTUAL OBLIGATIONS TO THE U.S.. IN ANY CASE, SHE REMINDED THE MINISTER, NO DECISION HAS BEEN MADE TO END THE CCC CREDIT GUARANTEE PROGRAM. FURTHER, THE USG DECISION TO DEFER ADDITIONAL FY 1998 CREDIT GUARANTEES DID NOT ARISE FROM A U.S.-IRAQI DISPUTE, BUT RATHER FROM THE CONTINUING LEGAL--NOT POLITICAL--INVESTIGATION OF BNL, INVOLVING THE ATLANTA BRANCH AND THE COMPANIES THAT UTILIZED ITS FACILITIES. USBA'S PART OF THE USG'S REVIEW OF IRAQ'S PROGRAM USAGE WAS COMPLETED WITH MR. DICKERSON'S REPORT, BUT THE LARGER BNL ISSUE IS STILL NOT RESOLVED AND NO ONE KNOWS WHEN IT WILL BE.

14. SALEN, IN HIS MINFIN CAPACITY, REAFFIRMED THAT IT IS GOI POLICY TO CONTINUE MAKING FULL PRIORITY PAYMENTS ON SCHEDULED GSM OBLIGATIONS UNTIL SUCH TIME AS A USG DECISION IS MADE ON THE FUTURE OF THE GSM OBLIGATIONS UNTIL SUCH TIME AS A USG DECISION IS MADE

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 ARA/NEA REARCS

PAGE 03 OF 05 BAGHDA 03884 00 OF 02 091415Z 015987 107951
 ON THE FUTURE OF THE GSM PROGRAM. HE RECALLED THAT THE ONGOING USG REVIEW REFERS TO THE SECOND USD 500 MILLION FOR FY 1990, AND IS ASSUMED NOT TO AFFECT IRAQ'S FUTURE ACCESS TO THE PROGRAM. THUS, IF THE USG DOES NOT, REPEAT NOT WISH TO COMMENCE THE ANNUAL NEGOTIATIONS FOR A NEW PROGRAM WHICH NORMALLY BEGIN IN AUGUST, THEN THE GOI WILL HAVE TO ASSUME A USG DECISION HAS BEEN MADE, AND THAT USG DECISION WILL BE SEEN AS A POLITICAL DECISION.

15. AMBASSADOR SAID THAT WE WERE AGREED THEN: NEITHER THE USG NOR THE GOI HAS TAKEN ANY FINAL DECISION. SHE HOPED THAT NEITHER WOULD DO SO. THE GSM PROGRAM HAS BENEFITTED AMERICAN FARMERS. THE PROGRAM HAS ALSO SERVED AS THE BACKBONE OF THE BILATERAL RELATIONSHIP WHICH BOTH OUR PRESIDENTS HAVE INSTRUCTED US TO BROADEN AND ENHANCE. FINALLY, CRITICS (IN BOTH COUNTRIES) OF A NORMAL U.S.-IRAQI RELATIONSHIP WILL USE ANY IRAQI DECISION TO RESCHEDULE AS A WEAPON TO HINDER A MUTUALLY BENEFICIAL POLITICAL RELATIONSHIP.

16. COMMENT: AS THE DEPARTMENT IS AWARE, SOME OBSERVERS HAD CONCLUDED THAT IRAQ, NOW DESPERATELY CASH POOR, WOULD RENEGE ON ITS USG DEBT AND PULL BACK FROM ANY ECONOMIC RELATIONSHIP WITH THE USG OR THE AMERICAN PRIVATE SECTOR, IF AND WHEN THE GOI CONCLUDED THE USG WOULD NEVER RESUME ANY CCC PROGRAM. THE GOI, HOWEVER, WANTS US TO KNOW THAT IT IS TAKING THE OPPOSITE TACK; SPECIFICALLY: (A) ONLY TRADE IN AGRICULTURAL GOODS WILL BE AFFECTED--THE MINISTER WAS CLEAR IN THAT POINT; (B) REPAYMENT WILL CONTINUE; BUT ON THE SAME BASIS AS THAT OF ALL OTHER OF IRAQ'S CREDITOR STATES (WITH THE SOLE CURRENT EXCEPTION OF THE UNITED STATES).

GLASPIE



United States Department of State

Washington, D.C. 20520

S/S

9013400

Jul 23

Dear Mr. Chairman:

Secretary Baker has asked me to respond to your letter of June 11, 1990, regarding the Justice Department's investigation of the Atlanta branch of Banca Nazionale del Lavoro (BNL) and alleged State Department interference with the Justice Department's handling of this matter. I apologize for the delay in responding to your inquiry.

The Department of State has not interfered in the Justice Department's handling of this matter. While the State Department is in frequent contact with the Justice Department on a range of issues of mutual concern, including the BNL matter, this is not for the purpose of interfering in Justice Department functions. Law enforcement actions can have a direct and foreseeable effect upon U.S. foreign relations. It is important for the Department of State, the executive branch agency charged with the administration of U.S. foreign policy, to coordinate with the Justice Department to ensure that enforcement agencies have the information they may need concerning the foreign-policy implications of matters for which they have responsibility and to ensure that the State Department is aware of anticipated law enforcement actions that may have an adverse impact on foreign relations. In this particular case, for example, it was important that the Department understand the nature of Justice's BNL investigation in order to formulate a position on whether to continue or suspend our CCC program with Iraq.

I hope the above information is responsive to your concerns, and I thank you for writing.

Sincerely,

W. G. Mullins
Janet G. Mullins
Assistant Secretary
Legislative Affairs

The Honorable
Charles E. Schumer,
Chairman,
Criminal Justice Subcommittee,
U.S. House of Representatives.

Special Orders Given by Chairman Henry B. Gonzalez on the National Advisory Council's Consideration of the Commodity Credit Corporation Program for Iraq

(Special Orders marked with ** can be found in Part I of this hearing record.)

February 4, 1991; Scandal Involving Atlanta Agency of BNL

March 2, 1992; BNL, Iraq, and the CCC Program**

March 3, 1992; CCC and the Pending Payment to BNL**

March 16, 1992; Cover-up Mechanism and Lies to Congress**

April 28, 1992; Kissinger Associates, Scowcroft, Eagleburger, Stoga, Iraq and BNL**

July 7, 1992; The President & the Rostow Gang, CIA Report on BNL, White House Calls Atlanta Prosecutor, Atlanta Prosecutors Kept in Dark by CIA

July 9, 1992; Scowcroft Improperly Intervened in CCC Program and Many More Lies to Congress**

September 28, 1992; The BNL Case: Hear No Evil, Speak No Evil

February 4, 1991

CONGRESSIONAL RECORD—HOUSE

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budget for the domestic needs of our country. Otherwise we will not have actually carried out the oath which all of us swore in this Chamber just a few days ago.

Mr. Speaker, we have a large challenge in the 103d Congress, but I think we can realize our needs and face that challenge.

THE PRESIDENT'S BUDGET FALLS SHORT OF MEETING UNMET NEEDS

(Mr. LEVIN of Michigan asked and was given permission to address the House for 1 minute, and to revise and extend his remarks.)

Mr. LEVIN of Michigan. Mr. Speaker, we have just received the budget message. Clearly there is a budget crunch in this country. From my preliminary reading, I am afraid the administration's response is robbing Peter to pay Paul.

I have looked at three areas. For example, unemployment compensation. The administration is at last going to react to the administrative needs of that people like those in Michigan no longer will have to wait 5 or 6 weeks for their check when they are unemployed through no fault of their own, but they are going to have to take money from TAA people who are unemployed.

On student grants, there is going to be a shuffling from middle income students to those in lower income brackets. The middle income students apparently are going to be lost in the shuffle.

Let us take Medicare. The proposal is to cut billions of indirect medical education from hospitals in urban and suburban areas that are feeling the brunt of the uninsured and those with AIDS and other diseases.

So what does this Nation need in facing this budget crunch? Not another shell game. It needs straight talk and sensitivity to unmet needs. From a preliminary reading of this budget of the administration's, there is no straight talk and little sensitivity to unmet needs.

SMALLEST CHILDREN ARE VICTIMS

Ms. BENTLEY asked and was given permission to address the House for 1 minute, and to revise and extend her remarks.)

Ms. BENTLEY. Mr. Speaker, we must reexamine our policies in calling up the reserves—and in deploying both the mother and father of small children to a combat zone. It is wrong to send both a mother and father to the altar of war.

We talk about being a kinder gentler nation but, in this instance, the Pentagon is only looking at cold numbers and not at the heart of the Nation.

World War II was different. We never drafted only the sole provider of a family. With the Korean police

action and in Vietnam we did not send both parents. Now that policy has changed. Since we have been promoting an All-Volunteer Army we should change the policy and protect our young children with the second parent doing duty in the country.

I am now sitting on the Pentagon and Secretary Cheney to look at every case of deployment of both parents and—I ask them to leave one parent in this country. I have supported our action and that of allowing women to be almost on the front line—but the children are our future. They must be protected.

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EPA TRIES, BUT LOSES, GRAND CANYON AIR BATTLE

(Mr. HOAGLAND asked and was given permission to address the House for 1 minute, and to revise and extend his remarks.)

Mr. HOAGLAND. Mr. Speaker, today I want to applaud the Environmental Protection Agency Administrator William Reilly for trying to attack head on the cheapness of the air in the Grand Canyon, a step long overdue. Unfortunately, Mr. Reilly, a man who has not shied away from taking bold steps to protect the environment, could not find sufficient support among his colleagues in the administration to do what really needed to be done.

We have learned from recent news reports that EPA proposed to reduce 90 percent of the sulfur emissions from a Navajo powerplant that is a significant contributor to the persistent haze shrouding the Grand Canyon, one of the Nation's most spectacular natural wonders. EPA, however, lost the battle to the Office of Management and Budget and the Department of Interior who propose reducing emissions by 70 percent.

This is disappointing news for several reasons. First, EPA's own analysis indicated that a 90-percent reduction in pollution would be more cost effective than a 70-percent cut. Further, if the administration had used the new allowance provisions of the new clean air law—provisions promoted by the administration which allow a utility to sell credits—a 90-percent cut would have been even more economical. The sale of allowances could have offset the cost of the controls needed to cut sulfur emissions by 90 percent.

Third, it is significant to note that a reduction of 70 percent leaves three times more pollution than a reduction of 90 percent. For example, if there are 100 tons of pollution and a plant reduces by 70 percent, 30 tons are left. If 90 percent is cut, 10 tons remain. Thus, the 70-percent reduction results in more pollution, a result which is contrary to the goal of the whole exercise.

Finally, one must question the dedication of the Department of the Interior to its basic goals. Interior is the

lead Federal agency whose mission is to protect the Nation's natural resources. Interior is the steward of the Nation's parks, wilderness, and refuge; but Interior, in this case, is part owner of the beast generating the pollution. Interior is both protector of the environment and generator of pollution seems to have lost sight of its environmental mission.

I have been very impressed and encouraged by Administrator Reilly's forward-looking approach these past 3 years. And I commended the Bush administration for proposing a clean air bill, a proposal that spurred a Congress that had been deadlocked for over 10 years. I hope that the decision on the Grand Canyon—one of the world's preeminent natural wonders—does not mean that this administration is already backsliding after signing into law a landmark clean air bill.

PROTEST OF EL SALVADOR VIOLENCE

The SPEAKER pro tempore (Mr. BENTLEY). Under a previous order of the House, the gentleman from Illinois (Mr. AMARIZO) is recognized for 5 minutes.

Mr. AMARIZO. Mr. Speaker, my pressing concern at home and abroad should not distract us from the recent surge of violence in El Salvador.

On January 2, leftist guerrillas shot two of our soldiers in cold blood after their helicopter crashed in El Salvador.

Now we have heard from Catholic Church officials in El Salvador that members of that country's military recently massacred 15 peasants.

According to a 17-page report, the soldiers stabbed and slit the throats of the victims, while their children watched from hiding places. The peasants, including a 14-year-old girl, apparently had ties to the Salvadoran rebels.

The Salvadoran military has denied involvement in the killings, but witnesses said the soldiers were unhesitant identifying them as government troops.

I urge our diplomats in El Salvador to thoroughly investigate this atrocity and other incidents attributed to either government or rebel forces.

Only then can we as a Congress make a clear judgment as to whether the Government of El Salvador deserves more military or economic help from the United States.

SCANDAL INVOLVING ATLANTA AGENCY OF BANCO NACIONAL DEL LAVORO

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Texas (Mr. GONZALEZ) is recognized for 60 minutes.

Mr. GONZALEZ. Mr. Speaker, having had the privilege of living long enough, and having a very good memory, I recall before 1941, and in fact in the late thirties, the old trolley tracks in my hometown of San Antonio being torn up and sold to Japanese

pressures of scrap iron and steel, so the day of the autobots was coming in. There were those then, and I recall vividly they were considered sort of out of line, who were saying, well, the day is going to come when you are going to have all of that steel shot back at our soldiers.

Well, it certainly did seem that those in my generation would never have to go to war, much less be scattered to the four corners of the Earth, and some of them not to return.

I am forcibly reminded of that period because of some of the things that have now happened in our country, where it looks as if again we have not learned anything. We are like the Bourbon kings. We do not seem to learn anything or forget anything.

Mr. Speaker, let me preface my remarks before I go into them too much by expressing my gratitude to an outstanding staff member of the full Banking Committee. Let me say by way of parenthesis so that some of my anxious colleagues who seem to think that as chairman I have total control of all the funding that is allocated to the Banking Committee, that actually about all I have is one-tenth of the staff, the total staff, that the Banking Committee lists as subcommittee staff and the like. One-tenth.

I have one-tenth of the budget for full committee chairman's discretion and direction.

I want to keep that in mind, because it is very important in order to exalt and to emphasize the preparation, what I call the genius of such a staffer, as Mr. Dennis Kane, who is the one that I want to give credit to for today's report.

I am here today to talk about the scandal involving the Atlanta branch of the large Italian Government-owned Banca Nazionale del Lavoro (BNL). This is a sensational case in which former employees of the Atlanta branch of BNL approved over \$3 billion in supposedly unauthorized loans to Iraq over the latter half of the 1980's. Most of these loans were not reported to American or Italian banking officials, so it is said.

The BNL scandal is a case study in bank regulatory failure. It is apparent that the State and Federal bank regulatory agencies failed to adequately supervise BNL. The Banking Committee is presently investigating this matter.

The BNL scandal raises several additional concerns within the jurisdiction of the Banking Committee. Foremost is the adequacy of the regulation and supervision of U.S. branches and agencies of foreign banks. Entities like BNL command over \$575 billion in assets in the United States and over \$1.5 billion of their liabilities are guaranteed by the FDIC. The Banking Committee is quite concerned that the present sharing arrangement between the State and Federal bank regulatory agencies is inadequate to ensure these entities are properly supervised. This was certainly the case in the BNL

affair. It is apparent that a thorough review of the International Banking Act is in order.

The BNL affair also raises the issue of whether or not we should allow U.S.-based financial institutions to be used as a conduit of foreign policy. It is time the committee delved into the intentions of foreign banks, especially those owned by foreign governments, and the role they play in our economy. We should ask ourselves: Should we permit foreign governments to carry out their foreign policy through our banking system, especially if it goes against our own interests? Should we permit foreign banks that are underwritten by foreign taxpayers to compete head on with our privately owned banks? One must wonder if it is fair for a foreign Government-owned bank to take business and jobs away from our privately owned domestic banks.

Maybe it is time we established a national screening board to monitor more closely foreign bank presence in the United States. Such a screening board could review applications for foreign bank entry into the United States, as well as monitor these banks to ensure they are not engaged in foreign policy activities or unfairly competing against our own firms.

BNL NOT JUST ANOTHER BANK REGULATORY FAILURE

The BNL scandal is not simply a bank regulatory failure. It is intimately linked with Iraq and the current gulf war. BNL loans permitted the export of almost a billion dollars of United States agricultural goods to Iraq. These loans not only permitted Iraq to feed its people, they freed up scarce foreign exchange that was used by Iraq to build up its military arsenal.

I have developed evidence clearly linking BNL loans to a net work of companies that helped to build the Iraqi war machine; the same war machine or so-called coalition partners are now trying to destroy. It is also the same war machine that has taken the lives of some of our Nation's precious young adults, and placed over 500,000 of our soldiers directly in harms way.

Unfortunately, the United States and European technology and know-how used in building the Iraqi war machine may have been legal. Inadequate export control laws and the lack of enforcement of these laws among the industrial nations, permitted the export of sophisticated technology and know-how to Iraq. Instead of being employed in civilian projects, this technology was often used to build and improve Iraqi weapons. Many of the companies providing this technology to Iraq were financed directly by BNL loans, while many others were indirect beneficiaries of BNL monies.

Of course deceit also played a large part in building the Iraqi war machine. It is quite probable that many of the companies providing technology and know-how to the Iraqi war machine did not realize they were doing so. During the 1980's Iraq established

a sophisticated network of front companies charged with the mission of finding and exporting Western technology to Iraq. No expense was spared including possible bribes and higher than normal profits for the producers of the goods exported to Iraq.

One must wonder what the United States and the Western intelligence community knew about BNL's role in transferring technology to Iraq. It would be surprising if the intelligence community of the United States and those of our Western allies did not know about the transfer of this technology and its uses. It would be hard to believe that they did not know about BNL's role in building the Iraqi war machine.

The BNL affair also raises questions about our own and other Western governments policies toward Iraq. For the most part the West ignored massive human rights abuses in Iraq. Iraq used poison gas against Iran, and even its own citizens, the Kurds. Brutal Iraqi relocation policies made refugees out of over 100,000 Kurds. Iraq was a know heaven of terrorist groups. Through all of this, the United States and other Western governments provided billions in export credit assistance to Iraq which had a history of being delinquent or not paying on its loans.

Over the next several months I will be taking the floor to talk about the many implications of the BNL scandal. Today I would like to start with some background material. I will introduce you to the strategy Iraq used to obtain Western technology that was ultimately used for military applications. I will provide background on the United States policy toward Iraq, background on BNL, and finally a summary of BNL's use of United States Government export credit programs.

At future dates I will provide an in depth look at the warning signs the United States ignored in dealing with Iraq, provide a more detailed look at the Iraqi technology procurement network including BNL's role in financing that network, provide statistics on the West's role in building the Iraqi war machine, and finally the need for our society, and that of our allies, to stop the proliferation of weapons of mass destruction.

SUMMARY OF UNITED STATES POLICY TOWARD IRAQ

In order to set the stage for an in-depth look at the BNL scandal, it will be useful to take a quick look at United States policy towards Iraq during the past decade or so.

In 1979, during the Carter administration, Iraq was labeled as a nation that had consistently supported international terrorism. At one time or another, Iraq was reportedly providing state sponsored support for the notorious anti-Israeli group the Abu Nidal Organization and other terrorist organizations. Under the export controls

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operative at that time, a terrorist designation meant Iraq was prohibited from purchasing many United States goods including civilian aircraft or military equipment.

Shortly after this action the Iranian revolution and ensuing hostage crisis rocked United States policy in the region. At the same time, tensions between Iran and Iraq were mounting. In 1980, Iraq invaded Iran, starting a bloody war that would last nearly 8 years and claim hundreds of thousands of lives.

The loss of Iran was a severe strategic blow to the United States. The United States feared Iranian hegemony in Middle Eastern affairs and began to tilt toward Iraq as a counterbalance to the rise of Iran. In a controversial decision, the Reagan administration removed Iraq from the terrorist list in 1983, thus easing export controls that had been instituted in 1979. It appears the United States wanted Iran to lose the war so bad that it was willing to reestablish diplomatic relations with Saddam Hussein's terrorist regime after a 17-year interruption even though many believed Iraq was still harboring terrorists.

Iraq was also friendly with Russia, and countering this influence in Iraq probably played a role in this United States decision to tilt toward Iraq. At the time, economic factors played little role.

Removing Iraq from the terrorist list also opened the door for United States Government guaranteed agricultural exports to Iraq which began in 1983. This was convenient, because at about the same time the U.S. agriculture community was experiencing surpluses in many agriculture commodities. The agriculture community supposedly saw Iraq as having long-term food needs that would present significant market opportunities for United States agricultural commodities.

In 1984, the United States officially reestablished diplomatic relations with Iraq even though in that same year Iraq had used poison gas in its war with Iran. Over the remaining years of the 1980's, Iraq continued to be one of the world's worst violators of human rights—a topic I will discuss at some length at a later date. Nevertheless, the administration continued to ignore massive human rights abuses.

As incredulous as it may seem, the United States reacted to all the human rights abuses, including Iraq gassing its own citizens, by expanding United States credit guarantee programs. From 1985 to 1990, the United States authorized over 4 billion in United States guaranteed agricultural exports to Iraq, the peak being \$1.1 billion in 1988.

While Iraqi participation in the agriculture export guarantee program was increasing dramatically, Iraq was in default on United States Export-Import Bank credit programs. After settling its differences with Iraq, in 1987, the Export-Import Bank opened

up for business with Iraq by providing a \$300 million a year line of short-term insurance coverage for United States manufacturing exports to Iraq. These actions were probably taken to appease Saddam and his ambitious economic reconstruction program announced in 1987. The war with Iran ended in 1988, and Iraq was anxious to get the reconstruction program going. ENIL would play a major role in the reconstruction effort.

THE IRAQI RECONSTRUCTION PROGRAM
With earnings from its huge oil reserves—second in the world to Saudi Arabia—Iraq entered the decade of the 1980's with hefty cash reserves. But its war with Iran—1980-88—and the drop in oil prices during the 1980's changed all that. Wartime weapons purchases coupled with domestic infrastructure expansion served to deplete Iraq's foreign exchange reserves.

Even though Iraq emerged from its war in poor financial condition, there was still some optimism regarding the reconstruction program. Iraq's oil reserves and its educated work force led many experts to believe that if Iraq could manage its economy properly, it could fulfill the promises of the reconstruction program. But with oil prices stagnating, Iraq was in poor shape to pay for this ambitious reconstruction program.

Iraq had accumulated massive debts of some \$70 billion during the 8 year war with Iran. A good portion of Iraq's external debt was owed to Western bankers, and this debt had to be repaid in foreign exchange earned from oil exports. Since much of Iraq's oil earnings had to be earmarked for debt servicing, its reconstruction program was in jeopardy of failing.

Saddam reacted to this problem by calling on many foreign countries to reschedule and spread out loans that had been extended to Iraq. Iraq had showed favoritism in contracting to nations that remained loyal during the war with Iran. Iraq also preferred to deal with nations willing to reschedule debts. It has been reported that Iraq often threatened to default on its official debts if a nation would not reschedule its loans to Iraq. Iraq refused to reschedule loans with nations in a multilateral forum, a process referred to as the Paris Club. While this was a violation of stated United States policy, it was purportedly ignored because Iraq was for the most part current on its United States debt.

Complicating Iraq's debt problems was the unwillingness of most Western banks to lend to Iraq without Government guarantees. At the date of the Iraqi invasion of Kuwait, United States-owned banks had an exposure to Iraq of a little over \$100 million. Western banks were not thought to have a relatively large net position in Iraq at the time of the invasion. Since few, if any, banks were willing to lend money to Iraq, Saddam turned to Western governments for help.

Many in the West perceived Iraq as a lucrative future export market. Iraq showed a distinct liking of Western technology and agricultural commodities. Many Western governments proved more than willing to provide the credit guarantees to capture part of the Iraqi market for their exports.

With the help of the United States, through its CCC and Eximbank programs, and supported by similar programs administered by several European and Asian countries, Saddam was able to keep his ambitious reconstruction going. But Saddam was not satisfied, he wanted more credit to fuel the reconstruction program. Enter ENIL Atlanta.

BACKGROUND ON ENIL AND ITS USE OF U.S. GOVERNMENT SPONSORED EXPORT CREDIT PROGRAMS

ENIL is the largest Italian bank in terms of deposits. It is 90 percent Government-owned and has over \$100 billion in assets worldwide. ENIL commands over \$8 billion in assets in the United States with offices based in Atlanta, New York, Chicago, Miami, and Los Angeles. Its North American headquarters are in New York. In addition, ENIL has a commercial paper subsidiary, called ENIL U.S. Corp., incorporated in Delaware and operating out of New York. ENIL has offices throughout Europe and branches in Hong Kong, Singapore, and a representative office in Tokyo. ENIL also has subsidiaries in Canada and The Netherlands Antilles.

THE BAIL OUT BY U.S. OPERATIONS

In July 1989, the Federal Reserve Bank of Atlanta was notified by the FBI of a substantial off-book operation at the Atlanta agency of Banca Nazionale del Lavoro. On August 4, 1989, the Federal Reserve, accompanied in Atlanta by the FBI and U.S. attorney in Atlanta, raided the U.S. operations of ENIL.

Based on information gathered from that raid, it was apparent that ENIL-Atlanta was conducting massive off-book transactions. The Atlanta office was lending and raising billions that it did not report on its financial statements or in its bank regulatory statements.

The off-book lending probably began in February 1987. These transactions, kept on a set of secret books, were purportedly established to conceal the excessive Iraqi loans from ENIL's headquarters in Rome.

The off-book transactions were originally used to finance commodity exports to Iraq. The first such transaction occurred in February 1987 with Rafidain Bank of Baghdad, Iraq. The following paragraphs provide some background on ENIL-Iraq participation in the agriculture credit programs.

U.S.-CCC EXPORT CREDIT GUARANTEE PROGRAMS

The U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC) is authorized under the CCC Charter Act and related legis-

lation to develop and administer programs to expand U.S. agricultural export markets. During the early 1980's, CCC devised two main credit guarantee programs to accomplish this mission: the GSM-102 and GSM-103 export credit guarantee programs. These programs target countries that have potential for additional food purchases, but are short on cash and need credit. The USDA looks at a potential participant country's long-term food needs, market development opportunities for U.S. commodities, as well as the ability of a country to repay credit extended under the program. The USDA also receives input from the U.S. export industry, before a final decision is made on which countries will be eligible to utilize the programs.

The GSM-102 and GSM-103 programs both work in a similar manner. Essentially, the CCC guarantee operates to attract credit from the private sector to finance sales of U.S. agricultural commodities, rather than having the Government provide credit directly. The principle and most significant differences between the GSM-102 and GSM-103 programs is the length of the credit terms. Depending on individual country announcements, GSM-102 guarantee programs can cover financing terms up to 3 years. Under the GSM-103 program, credit guarantees are provided for periods from 3 to 10 years, although typically financing coverage does not extend beyond 7 years.

Prior to the beginning of each year, USDA, through its commodity divisions and the attaché service of the Foreign Agricultural Service (FAS), enter into discussions with foreign countries interested in the GSM programs. FAS then allocates the amounts of credit guarantees among potential participating countries, establishing specific country lines by commodity. These proposals are then presented to an interagency group—the National Advisory Council—for its advice.

Under both programs CCC first announces the availability of coverage for eligible countries. After the announcement, U.S. agricultural exporters register sales to the eligible country, and pays a guarantee fee to CCC.

Transactions under both programs must be covered by an irrevocable letter of credit issued by a CCC-approved bank located in the importing country. This was the Rafidain Bank in the case of Iraq. U.S. exporters usually assign the guarantee to a United States or foreign bank which then provides the financing of the export transaction.

In the case of the GSM-102 program, Congress mandated that CCC make available "no less than \$5 billion" annually in short-term credit guarantees. Under the GSM-103, program Congress established a ceiling level which for the most recent fiscal year was \$1 billion.

IRAQ UTILIZATION OF CCC CREDIT GUARANTEES

Iraq began purchasing United States commodities under the GSM program in 1983, just prior to the United States and Iraq reestablishing diplomatic relations that had been severed for 17 years. The following chart summarizes Iraq use of the GSM program.

SUMMARY OF SALES APPROVED UNDER CCC CREDIT GUARANTEE PROGRAMS FOR IRAQ

(in millions of dollars)			
	GSM-102	GSM-103	Total
Year			
1983	264.5	0	264.5
1984	168.1	0	168.1
1985	296.3	0	296.3
1986	262.9	0.7	263.6
1987	262.9	0.1	263.0
1988	1,112.1	22.3	1,134.4
1989	1,288.1	24.4	1,312.5
1990	489.0	0	489.0
Total	4,862.7	27.5	5,890.2

On August 2, 1990, the USDA suspended Iraq from the GSM-102/103 Program. As of the latest reading, the total GSM Program exposure to Iraq is approximately \$2 billion. Of this amount, CCC owes BNL between \$347 million. BNL says \$383 million—because of Iraqi nonpayment.

BNL, IRAQ, AND CCC

BNL had extensive dealings with high level Iraqis. Employees of BNL frequently visited Iraq and high-ranking government officials often made trips to the United States to meet with BNL employees.

After BNL was raided by Government officials in August of 1989, the Department of Agriculture was alerted to what appeared to be irregularities in the BNL/Iraqi GSM 102-103 Programs. CCC investigated several irregularities which included:

First, unusually high prices obtained by exporters in connection with 102 sales to Iraq involving BNL.

Second, shifting of some freight and freight financing costs to CCC, thus lowering the amount of guarantee authority under the 102 Program that could be used by others.

Third, utilization of after-sales services in violation of CCC regulations.

Fourth, Iraq requiring exporters to pay a stamp tax, a policy that is supposed to be prohibited under the 102 Program.

Upon concluding its review, CCC asked the USDA's Office of Inspector General to conduct a thorough investigation of all CCC-guaranteed sales to Iraq. CCC will take the appropriate administrative or civil action in the event that the OIG report discloses wrongful violation of program requirements. The CCC is also waiting for the results of the Justice Department's ongoing criminal investigation of BNL when more information will become available.

BNL is also being investigated for links to several tobacco exporting companies that have plead guilty or are being investigated for shipping foreign source tobacco to Iraq in violation of

CCC Program regulations. BNL financing of illegal sugar exports is also under review. To date, the CCC has not suspended BNL from participating in the GSM-102/103 Program.

The following sections explain the Eximbank credit guarantee program Iraq participated in with BNL.

IRAQ UTILIZATION OF EXPORT-IMPORT BANK PROGRAMS

Like the GSM-102/103 Programs, Iraq used BNL to finance many of its imports transactions using Eximbank insurance programs. Eximbank finances U.S. exports by providing guarantees, insurance, and loan support. The Eximbank programs utilized by Iraq include the short-term single buyer policy which was utilized mainly by American exporters, and the bank letter of credit insurance policy which was utilized by banks like BNL. Both programs indemnify the insured party—a United States exporter or a bank—against the risk of Iraqi nonpayment.

From July 1987 to August 2, 1990, the Export-Import Bank (Eximbank) provided Iraq with \$200 million of short-term insurance coverage, insuring against Iraqi nonpayment for up to 360 days. In testimony before the House Banking Committee, Eximbank officials stated, "... we cautiously opened in Iraq only for short-term insurance despite tremendous pressure from the American business community as well as competition from foreign export credit agencies..." Eximbank also received tremendous pressure from the Government of Iraq, which was continually requesting that Eximbank expand its coverage to include medium and long-term insurance coverage.

Eximbank was cautious about its exposure to Iraq because of a history of Iraqi payment delinquencies. In fact, for 18 months prior to opening with Iraq in 1987, Eximbank had suspended Iraq because of payment delinquencies. As recent as July 30, 1990, Eximbank had to pay an exporter \$53,000 because of Iraqi refusal to make good on a contract insured by Eximbank.

In total, Eximbank has insured hundreds of millions of dollars of exports to Iraq. The current Eximbank exposure to Iraq is \$72.5 million, of which \$48 million is for amounts outstanding and \$18.5 million represents potential exposure. The potential exposure of \$18.5 million relates to shipments which did not take place prior to August 2, 1990. Since these exports were banned, Eximbank should be able to take those guarantees off its books.

Under the Eximbank Letter of Credit Program with Iraq, BNL was insured for 51 export transactions with a dollar value of \$47 million. Of this amount \$43.8 million has been repaid by Iraq. Eximbank currently owes BNL the remaining \$3.2 million because Iraq defaulted on several letters

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of credit that were funded by BNL and insured by Eximbank.

BNL LOANS FOR IRAQI RECONSTRUCTION PROGRAM

Officials from the Atlanta office of BNL had developed a close working relationship with high-level Iraq Government officials due to BNL participation in the CCC Credit Guarantee Program. As the war with Iran ended in 1988, BNL Atlanta was asked to take a bigger role in the reconstruction program by financing noncommodity exports to Iraq. While these loans were supposed to help rebuild the Iraqi civilian economy, many went to improve the Iraqi war machine.

Lending under these agreements took the form of four "medium-term loan agreements (MTL's)" signed with the Central Bank of Iraq (CBI). These loans had 5- to 7-year maturities and 2- to 5-year grace periods. BNL was able to borrow such large amounts of money because of its reputation and, more importantly, its top-notch credit rating. The loan agreements are summarized below.

Rate	Date	Amount
MTL I	2/27/88	\$200 million
MTL II	10/15/88	300 million
MTL III	12/15/88	500 million
MTL IV	4/8/89	1,155 million

By the time regulators raided BNL a majority of the loans had already been disbursed. Disbursement took several forms. Sometimes BNL paid exporters directly. Sometimes the Central Bank of Iraq would pay an exporter directly and then BNL would make a payment to the CBI's account at a U.S. bank that covered the dollar equivalent of all foreign currency payments made by CBI. Other times, BNL would lend directly to CBI by placing funds in CBI accounts.

As of January 1990, a total of \$1.55 billion had been drawn and committed under these agreements. After the raid, Iraq still insisted that BNL make good on the remaining loans still outstanding under the agreements. After months of intense negotiations, on January 24, 1990, BNL and Iraq renegotiated the four MTL's. They agreed that the residual \$600 million or so would be utilized for new transactions, two-thirds of which would finance projects, the supplies and services coming from Italian firms and one-third could be used for purchases from other countries.

You might wonder why BNL renegotiated the loans. It's simple, under international law the contracts signed with BNL were valid. So Iraq threatened not to repay the money it already owed to BNL unless BNL made good on the remaining balance of the loans.

INTRODUCTION TO IRAQI TECHNOLOGY PROCUREMENT NETWORK

Besides providing an example of botched bank supervision, BNL provides an example of a less evident, but

more more profound policy failure; the failure to stop arms proliferation.

The spread of ever more sophisticated weaponry—including chemical, biological, and nuclear weapons—and of the missiles capable of carrying them, represents a growing danger to international security. Arms proliferation exacerbates and fuels regional tensions, complicates U.S. defense planning, and poses ever greater dangers to U.S. forces and facilities abroad.

The West's policy toward Iraq is a case study in the dangers of failing to stop arms proliferation. Many of our coalition partners sold weapons directly to Iraq. The United States and many coalition partners, either directly or indirectly, provided Iraq with the technology and know-how needed to build and improve the very weapons capability we are now engaged in destroying.

A recent episode of the ABC-TV show "20/20" highlights the dangers of allowing sophisticated U.S. technological know-how to get into the wrong hands. A U.S. company developed a feared weapon called a "cluster bomb." The United States had prohibited the sale of this bomb to Iraq, but this did not stop Iraq.

Arms dealers apparently bought the know-how to produce the cluster bomb from the American company that developed the bomb for the U.S. military. The arms dealers then modified the plans slightly, applied and were granted a U.S. patent, and then sold the plans to other arms dealers outside the United States, who built a cluster bomb factory. Iraq was grateful; it purchased thousands of bombs and may have even built its own bomb factory. Needless to say, the Iraqi cluster bombs now threaten the lives of our soldiers in the Gulf.

Third world nations like Iraq, wishing to obtain dominance in their regions by using the military might, too often do not have to rely on obtaining the weapons of mass destruction directly.

Instead, these nations take advantage of nonexistent or poorly enforced export control laws in the West to obtain the technology and know-how to build weapons facilities on their own home soils. Iraq was one such nation.

IRAQI SUCCESSFUL IN OBTAINING WESTERN TECHNOLOGY

The Iraqis were quite successful in obtaining western technology. During the 1980's, Iraq established ownership or control of a sophisticated network of United States and European front companies whose primary mission was to obtain western military technology and know-how and export it back to Iraq. The Iraqis were very secretive in their dealings and were careful to conceal their true affiliation.

An example of the success of this network is the Taji Complex, a cannon factory outside of Baghdad. This project was long considered a civilian industrial complex, and many western

nations provided the technology and know-how to build it. Last year, a German Government investigation concluded Taji was meant for the manufacture of gun barrels. Many European and United States companies provided technology for this plant.

Hopefully, coalition air forces have destroyed the Taji Complex. But the Taji Complex is just one example of the Iraqi strategy. Over the next several months I will acquaint you with other Iraqi military applications made possible by Western technology and BNL financing.

A recent example of a company linked to the Iraqi network is the Cleveland, Ohio-based machine tool company, Matrix-Churchill. Iraqis recently owned Matrix-Churchill and its affiliate in England and used both to obtain computer-controlled lathes and other industrial machinery that went into the Taji Cannon Complex.

Upon gaining control of the Cleveland-based Matrix-Churchill, the Iraqis set up a procurement division within the company. The procurement side of the company received its orders, mostly in Arabic, directly from Baghdad. It was apparently charged with finding other United States companies that would build industrial plants in Iraq. Matrix-Churchill helped find U.S. contractors to build a Fiberglass plant and sophisticated cutting tool plant in Iraq. The cutting plant may have been used to manufacture parts with nuclear applications, while the Fiberglass plant was supposedly used to produce missile casings.

Ironically, the U.S. Government and our Western allies often granted export licenses for such plants, thus permitting countries like Iraq access to such sophisticated technology. This was the case with the above plants. The United States Customs Service confiscated Matrix-Churchill in September 1990, calling it an "Iraqi front company."

HUNDREDS OF SUCH COMPANIES?

It is likely that the Iraqi network used dozens of United States and European companies to supply the needed technology and know-how to upgrade Iraqi military capability. It is debatable whether or not these companies knew the ultimate destination of their products. Some probably did; some probably did not. These companies were often lured into supplying Iraq by higher than normal profits and even bribes.

WHERE WAS THE INTELLIGENCE COMMUNITY?

As I stated earlier, it is hard to believe that the United States intelligence community or that of our allies did not know about the applications of technology being transferred to Iraq. It is also hard to believe BNL escaped the attention of the intelligence community. These organizations monitor overseas telexes and phone conversations. Did they fail to discover the over 3,000 telexes between BNL and

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Iraq Government agencies, many providing information detailing loans to companies that were building the Taji complex and other military related projects within Iraq?

They also monitor travel between the United States and Iraq. Did they fail to discover the many visits BNL employees made to Iraq and vice versa, and the purpose of such visits?

Given the magnitude of the loans to Iraq, and the projects that some of the loans were going to finance, one would almost be justified in asking the question: If the United States and Western intelligence community did not know about BNL, did they fail to do their job properly?

Obviously, many exporters knew they were building or supplying machinery and know-how to weapons plants in Iraq. If it was common knowledge among exporters that many of the supposed "industrial facilities" in Iraq, like the Taji complex, were actually military plants, one would think the Western intelligence community would know about these plants? I would also like to think our Government would have severely reprimanded Iraq for such activities. Maybe the United States intelligence community did not know, because Iraq was never severely penalized.

□ 1320

Mr. Speaker, at the end of my remarks I am including some tables and also copies of correspondence between the Honorable Richard L. Thornburgh, the Attorney General of the United States, and myself. Let me say that the Attorney General was very, very much opposed to my calling and holding the hearings last November.

My colleagues can read what I said by way of explanation in this letter. I will just read the first paragraph. I said to the Attorney General: "The purpose of this letter is to respond to your letter of September 28, 1990, and to express my distress over your apparent lack of understanding of the investigative and legislative functions of the Congress."

Mr. Speaker, there is only one of the three basic constitutional powers inherent in the Congress and not delegatable that has remained, I would say, fairly intact and upheld by Supreme Court decision after Supreme Court decision, and that one is the right for the Congress to know, seek, and obtain information. Our purpose is legislative because we have the task of having to plug this tremendous hole in our regulatory structure that allows, even now as I speak, close to 600 billion dollars' worth of credit resources in this country to be used in a way that may not be perceived now any more than it was before August 2, 1990.

Mr. Speaker, the tables and correspondence to which I referred are included as follows:

BNL PARTICIPATION IN CCC PROGRAMS

TABLE 1-1.—ANNOUNCED AVAILABILITY OF ALL-RISK FINANCING GUARANTEES APPLICABLE UNDER THE TRANSNATIONAL CCC EXPORT CREDIT GUARANTEE PROGRAM (GSM-102) DURING FISCAL YEAR 1983

Country and commodity	(in millions of dollars)		
	Announced value of all-risk financing guarantees availability	Estimated period of coverage (months)	
Iran			
Wheat/wheat	137.0	36	
Rice	88.0	36	
Feed grains	119.0	36	
Subtotal	344.0		

TABLE 1-1A.—ANNOUNCED COMMERCIAL CREDIT LINES—BY COUNTRY AND COMMODITY DURING FISCAL YEAR 1984

Country and commodity	(in millions of dollars)		
	GSM-102 guarantee	Direct credit (GSM-102 and 5)	Credit period (months)
Iran			
Feed grains	168.4	168.4	36
Wheat	10.0	10.0	36
Rice	10.0	10.0	36
Subtotal	188.4	188.4	
Iran	188.4	188.4	36
Wheat	10.0	10.0	36
Rice	10.0	10.0	36
Subtotal	20.0	20.0	
Iran	208.4	208.4	36
Wheat	10.0	10.0	36
Rice	10.0	10.0	36
Subtotal	20.0	20.0	
Iran	228.4	228.4	36

TABLE 1-1A.—ANNOUNCED COMMERCIAL CREDIT LINES—BY COUNTRY AND COMMODITY DURING FISCAL YEAR 1984

Country and commodity	(in millions of dollars)		
	GSM-102 guarantee	Direct credit (GSM-102 and 5)	Credit period (months)
Iran			
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Rice	10.0	10.0	36
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TABLE 1-1.—ANNOUNCED COMMERCIAL CREDIT LINES—BY COUNTRY AND COMMODITY DURING FISCAL YEAR 1986—Continued

Country and commodity	(in millions of dollars)		
	GSM-102 guarantee	Direct credit (GSM-102 and 5)	Credit period (months)
Iran			
Feed grains	168.4	168.4	36
Wheat	10.0	10.0	36
Rice	10.0	10.0	36
Subtotal	188.4	188.4	
Iran	188.4	188.4	36
Wheat	10.0	10.0	36
Rice	10.0	10.0	36
Subtotal	20.0	20.0	
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Subtotal	20.0	20.0	
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Wheat	10.0	10.0	36
Rice	10.0	10.0	36
Subtotal	20.0	20.0	
Iran	228.4	228.4	36

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TABLE K-1A.—ANNOUNCED COMMERCIAL CREDIT LINES, BY COUNTRY AND COMMODITY DURING FISCAL YEAR 1987—Continued

Country and commodity	(\$ millions of dollars)			Credit period (years)
	Guaranteed	Registered	Balance	
Subtotal	87.9	85.1	1.9	

TABLE K-1A.—ANNOUNCED COMMERCIAL CREDIT LINES, BY COUNTRY AND COMMODITY, DURING FISCAL YEAR 1988

Country and commodity	(\$ millions of dollars)			Credit period (years)
	Guaranteed	Registered	Balance	
Barley	13.0	13.0	0	25
Barley malt, malt and/or hop extract	0.0	0.0	0	25
Barley malt, malt and hop extract	2.77	2.77	0	25
Concentrates (first press and/or malt)	0.2	0.1	1	25
Corn brewers	2.6	2.6	0	25
Corn and/or malt	56.79	56.79	0	25
Feed grains	113.69	113.69	0	25
Malt and/or malt	2.1	2.1	0	25

TABLE K-1.—ANNOUNCED COMMERCIAL CREDIT LINES, BY COUNTRY AND COMMODITY, DURING FISCAL YEAR 1988—Continued

Country and commodity	(\$ millions of dollars)			Credit period (years)
	Guaranteed	Registered	Balance	
Initial with female	4.8	4.8	0	25
Leather (year and/or half-leather)—not a full range of leather garments	5.02	5.02	0	7/29
Leather	52.49	52.49	0	25
Wool, goat, dry (fat)	16.2	16.2	0	25
Wool, goat, dry (fat)	12.26	12.26	0	25
Wool, goat, dry (fat)	48.2	48.2	0	25
Wool, goat, dry (fat)	63.4	63.4	0	25
Wool, goat, dry (fat)	16.17	16.17	0	25
Wool, goat, dry (fat)	5	5	2	25
Wool, goat, dry (fat)	263.98	263.98	0	25
Wool, goat, dry (fat)	68.0	67.5	5	25
Wool, goat, dry (fat)	14.18	14.18	0	25
Wool, goat, dry (fat)	26.52	26.52	0	25
Wool, goat, dry (fat)	124.28	124.28	0	25
Wool, goat, dry (fat)	2.3	2.3	0	25
Wool, goat, dry (fat)	71.14	71.14	0	12
Wool, goat, dry (fat)	46.2	46.2	0	25
Wool, goat, dry (fat)	7.41	7.41	0	25

TABLE K-1.—ANNOUNCED COMMERCIAL CREDIT LINES, BY COUNTRY AND COMMODITY, DURING FISCAL YEAR 1988—Continued

Country and commodity	(\$ millions of dollars)			Credit period (years)
	Guaranteed	Registered	Balance	
Unsubstantiated	10.77	0	10.77	
Subtotal	1,041.59	1,049.86	11.84	

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TABLE K-1A.—ANNOUNCED COMMERCIAL CREDIT LINES, BY COUNTRY AND COMMODITY, DURING FISCAL YEAR 1988

Country and commodity	(\$ millions of dollars)			Credit period (years)
	Guaranteed	Registered	Balance	
Barley	13.0	13.0	0	25
Barley malt, malt and/or hop extract	0.0	0.0	0	25
Barley malt, malt and hop extract	2.77	2.77	0	25
Concentrates (first press and/or malt)	0.2	0.1	1	25
Corn brewers	2.6	2.6	0	25
Corn and/or malt	56.79	56.79	0	25
Feed grains	113.69	113.69	0	25
Malt and/or malt	2.1	2.1	0	25

BIL PARTICIPATION IN EXPORT-IMPORT BANK PROGRAMS

Importers	Suppliers	City and State	Import name	Products	Amount	Date authorized
BNL-Atlanta	Petroleum Int'l Ltd	Richmond, VA	OT EXT Item 6 Steel	Gray-Gun Cutting Blades	230,000	Feb. 23, 1988
BNL-Atlanta	Grain Electronics	Woodbridge, NJ	Irish Grain Record	Spare Parts for steel mill	125,614	Feb. 25, 1988
BNL-Atlanta	Exxon Company	Houston, TX	OT Equipment Co.	Air conditioning equipment	253,153	Apr. 5, 1988
BNL-Atlanta	Marine World Ltd.	Baltimore, MD	Exxon State Estab.	Cooking plant parts	144,884	Apr. 12, 1988
BNL-Atlanta	Trading & Int'l Corp.	Charleston, SC	AT Mill Int'l Estab.	Air motor parts	252,560	May 12, 1988
BNL-Atlanta	Law-Off South	Baltimore, MD	Light Industrial Co.	Spare parts	217,000	May 11, 1988
BNL-Atlanta	ED & D Int'l Inc.	Vienna, VA	Light Industrial Co.	Machines Tools and Tack parts	3,895,928	May 11, 1988
BNL-Atlanta	CDP Int'l Inc.	Sydney, OH	Irish Trading Co.	A/C compressors	1,528,205	May 11, 1988
BNL-Atlanta	Lab Chemical Corp.	New York, NY	OT Ship Black & Ag Ship	Herbicide	247,805	May 11, 1988
BNL-Atlanta	Exxon Company	Houston, TX	OT Equipment Co.	(17) Welding machines	16,584	May 17, 1988
BNL-Atlanta	Exxon Int'l Inc.	Baltimore, MD	Exxon Power Int'l	Chem raw mat and solvents	896,423	May 17, 1988
BNL-Atlanta	West Point	West Point, GA	OT Equipment Co.	Spare parts for Lanes	20,100	May 25, 1988
BNL-Atlanta	Marine World Ltd.	Charleston, SC	North Concord St Est	(7) 25 ton dump trucks	297,326	May 25, 1988
BNL-Atlanta	Robert Corp Dye	Detroit, MI	OT Leather Int'l	Leather bags	15,580	May 25, 1988
BNL-Atlanta	Donald Myers Int'l	Rock Hill, SC	OT Co. Drugs & Med App	Pharmaceuticals	342,750	May 25, 1988
BNL-Atlanta	Intrepid Systems Int'l	Elk Grove Village, IL	OT Ext. Beverages	Cooking machines and parts	45,467	June 14, 1988
BNL-Atlanta	Michael Adams, Inc.	Albany, NY	New York Project	(75) Tube pumps	1,298,448	June 14, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	Irish Trading Co.	Steel and tubes	5,248,649	June 21, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	Irish Trading Co.	A/C compressors	147,120	June 21, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	Irish Trading Co.	Steel and tubes	682,194	June 26, 1988
BNL-Atlanta	Grain Electronics	Richmond, VA	OT Equipment Co.	Controler machine	127,842	June 29, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Polyester yarn	1,216,600	July 14, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	OT pharmaceuticals	257,000	July 15, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	C. V. Scanner parts	448,889	July 15, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	OT pharmaceuticals	177,560	July 15, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Leather and leather	1,097,000	July 15, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Electronic parts and mat	2,100,000	July 22, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Pharmaceuticals	58,913	Aug. 3, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Pharmaceuticals	18,332	Aug. 4, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Leather Transfer Supplies	72,440	Oct. 31, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	33,003	Oct. 31, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	82,744	Oct. 31, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	42,143	Oct. 31, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	67,424	Oct. 31, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	213,760	Oct. 31, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	42,727	Oct. 31, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	132,828	July 79, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	179,200	June 78, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	225,479	June 18, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	2,732,478	June 17, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	174,300	June 11, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	1,658,234	June 25, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	4,600,000	June 26, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	68,713	June 3, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	295,884	June 3, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	15,480	June 3, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	8,712,000	June 18, 1988
BNL-Atlanta	Exxon Int'l	Woodbridge, NJ	OT Equipment Co.	Spare parts	126,448	June 27, 1988

Source: Eximbank Oct. 12, 1988.

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OFFICE OF THE ATTORNEY GENERAL,
Washington, DC, September 24, 1990.
Hon. HENRY B. GONZALEZ,

Chairman, Committee on Banking, Finance,
and Urban Affairs, U.S. House of Repre-
sentatives, Washington, DC.

Dear Mr. Chairman: The purpose of this
letter is to express my profound disappoint-
ment in your decision to ignore the strong
objections of this Department in the Banca
Nazionale del Lavoro (BNL) matter. I am
similarly distressed by your refusal last
evening to discuss the matter with me.

Your intention to schedule a hearing for
October 9th on the investigation of unau-
thorized loans to Iraq by BNL and the re-
quest to interview both the Assistant United
States Attorney and the government wit-
nesses in the case raises the prospect that
culpable parties will elude prosecution.
Your staff is fully aware of the existence of
our ongoing criminal investigation and the
likely impact that these actions will produce
on our efforts.

As you should be aware, this is a sensitive
case with national security concerns. The
United States Attorney in Atlanta advises
me that both witness security and the will-
ingness of witnesses to continue to cooper-
ate with the investigation and prosecutions
will be jeopardized by your Congressional
staff interviews and hearing.

Mr. Chairman, a decision to proceed with
these interviews and the hearing at this
time significantly diminishes the Depart-
ment's ability to successfully prosecute this
matter. Accordingly, we again request that
your staff work with the Department to
find alternatives that allow both the legisla-
tive and the law enforcement processes to
function.

Sincerely,

DICK THORNBURG,
Attorney General.

COMMITTEE ON BANKING, FINANCE
AND URBAN AFFAIRS,
Washington, DC, September 22, 1990.
Hon. RICHARD L. THORNBURG,
Attorney General, Washington, DC.

Dear Mr. Attorney General: The pur-
pose of this letter is to respond to your
letter of September 26, 1990, and to express
my distress over your apparent lack of un-
derstanding of the investigative and legisla-
tive functions of the Congress.

On September 21, 1990, I agreed to allow
my staff to meet with your staff to discuss
the Justice Department's concerns related
to the Banking Committee's investigation of
the Atlanta Agency of Banca Nazionale Del
Lavoro (BNL). During, and subsequent to
this meeting, your staff was unable to
comply with my request for specific justifi-
cation for suspending this most important
inquiry.

Specifically, the Justice Department
failed to reveal how interviewing employees
from the Federal Board, the Federal Re-
serve Bank of Atlanta, the Department of
Banking and Finance of the State of Geor-
gia, and current and former employees of
BNL would, as your letter states, "signifi-
cantly diminish the Justice Department's
ability to successfully prosecute this
matter." In addition, the Justice Depart-
ment failed to demonstrate how the Bank-
ing Committee's investigation would jeopar-
dize the personal security of witnesses or
inhibit their cooperating with the Justice
Department's investigation of BNL.

As Chairman of the Banking Committee, I
am concerned that the regulation and ex-
amination of the U.S. branches and agencies
of foreign banks (see the International
Banking Act 92 Stat. 907) is inadequate.
These entities command over \$500 billion in
assets in the U.S. and a significant portion

of their liabilities are guaranteed by the
Federal Deposit Insurance Corporation
(FDIC). The magnitude of the BNL fiasco
(i.e., \$1.8 billion in unauthorized loans to
Iraq), while not directly posing a risk of the
FDIC, certainly raises the question of the
adequacy of state and federal regulation
and oversight of these entities. Rest as-
sured, in order to ensure the U.S. branches
and agencies of foreign banks do not pose
an undue risk to the already beleaguered
FDIC, the Banking Committee will continue
to investigate the adequacy of the regula-
tion and examination of these entities. The
BNL case provides a clear case of a regula-
tory breakdown that needs to be understood
and addressed.

With regard to the Banking Committee's
legislative interest in BNL, the Federal Re-
serve has notified me that the BNL investi-
gation uncovered a loophole in the criminal
code that will probably allow former em-
ployees of BNL to escape Federal prosecu-
tion for fraud, theft, embezzlement, misap-
plication of funds, and bribery. You can be
sure that I will continue to work to correct
this over decade long Justice Department
oversight. I have been given permission by
the Rules Committee, and I intend to offer
a floor amendment to the crime bill that
will close this loophole in the criminal code.

I hope this letter has served to properly
inform you as to the Banking Committee's
legislative and investigative interests in
BNL. I trust the Justice Department will
provide full cooperation.

Sincerely,

HENRY B. GONZALEZ,
Chairman.

The SPEAKER pro tempore (Mr.
BENNETT). Under a previous order of the
House, the gentleman from Georgia
(Mr. GINGRICH) is recognized for
60 minutes.

(Mr. GINGRICH addressed the
House. His remarks will appear hereaf-
ter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under
a previous order of the House, the gen-
tleman from New York (Mr. OWENS) is
recognized for 60 minutes.

(Mr. OWENS of New York ad-
dressed the House. His remarks will
appear hereafter in the Extensions of
Remarks.)

SPECIAL ORDERS GRANTED

By unanimous consent, permission
to address the House, following the
legislative program and any special
orders heretofore entered, was granted to:

(The following Members (at the re-
quest of Mr. GONZALEZ) to revise and
extend their remarks and include ex-
traneous material:)

Mr. MAXWELL, for 5 minutes, today.
Mr. ARROWOOD, for 5 minutes, today.
Mr. OLICHMAN, for 60 minutes each
day, on February 5 and 6.
Mr. BILLYEAT, for 5 minutes, on Feb-
ruary 5 and 6.

EXTENSION OF REMARKS

By unanimous consent, permission
to revise and extend remarks was
granted to:

(The following Members (at the re-
quest of Mr. LAOUMASINO) and to in-
clude extraneous matter:)

Mr. GREEN of New York.
Mr. KOLBE.
Mr. GRABISON.
Mr. CLINGER.
Mr. MICHEL.

(The following Members (at the re-
quest of Mr. GONZALEZ) and to include
extraneous matter:)

Mr. LANTOS in two instances.
Mr. STARK in three instances.
Mr. CLEMENT.
Mr. DORGAN of North Dakota.
Mr. STOKES.
Mr. PENNY.
Mr. ANDERSON in 10 instances.
Mr. GONZALEZ in 10 instances.
Mr. BROWN of California in 10 in-
stances.
Mr. AMNUZZIO in six instances.
Mrs. LOYD in five instances.
Mr. HAMILTON in 10 instances.
Mr. DE LA GARZA in 10 instances.
Mr. MATSUI in three instances.
Mr. EDMUND.
Mr. HOCHBREUCKNER.

ENROLLED BILL SIGNED

Mr. ROSE, from the Committee on
House Administration, reported that
that committee had examined and
found truly enrolled a bill of the
House of the following title, which was
thereupon signed by the Speaker:

H.R. 554. An act to provide for the Sec-
retary of Veterans Affairs to obtain indepen-
dent scientific review of the available sci-
entific evidence regarding associations be-
tween diseases and exposure to dioxin and
other chemical compounds in herbicides,
and for other purposes.

SENATE BILL REFERRED

(Omitted from the Congressional Record of
Thursday, January 31, 1991)

A bill of the Senate of the following
title was taken from the Speaker's
table and, under the rule, referred as
follows:

S. 298. An act to amend the Immigration
and Nationality Act to provide for special
immigrant status for certain aliens who
have served honorably (or are enlisted to
serve) in the Armed Forces of the United
States for at least 12 years; Committee on
the Judiciary.

ADJOURNMENT

Mr. GONZALEZ. Mr. Speaker, I
move that the House do now adjourn.
The motion was agreed to; accord-
ingly (at 1 o'clock and 23 minutes
p.m.), the House adjourned until to-
morrow, Tuesday, February 5, 1991, at
12 noon.

EXECUTIVE COMMUNICATIONS,
ETC.

Under clause 2 of rule XXIV, execu-
tive communications were taken from
the Speaker's table and referred as fol-
lows:

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to appear in person at some municipal office, the discouraging requirement still existed in 32 States. States would also be required to distribute registration forms and give assistance at public agencies like unemployment and welfare offices.

These common sense steps deserve the support of all who care about expanding democracy. Indeed, a similar bill passed the House in 1980 with strong bipartisan support. Yet Senate Republicans, evidently out of fear that unregistered voters are more likely to vote Democratic, have succeeded in blocking "motor voter" from even getting to the floor—that is, until today.

By joining the present honorable bank of Republicans who support the measure, Republicans like Alfonse D'Amato of New York and Arlen Specter of Pennsylvania can show the kind of bipartisanship "motor voter" needs if it's to have a realistic chance of avoiding a veto.

Opponents of "motor voter" say they're worried about cost and vote fraud. But these concerns are exaggerated. What's hard to exaggerate is the shame Americans confront in a system that leaves only six of every ten eligible voters registered. The Senate today can vote to silence that shame and enfranchise the other four.

THE ROSTOW GANG

The SPEAKER pro tempore (Mr. ARDMAN of New Jersey). Under a previous order of the House, the gentleman from Texas [Mr. GONZALEZ] is recognized for 60 minutes.

Mr. GONZALEZ. Mr. Speaker, today I will provide an update on the Rostow gang which will reveal that President Bush, his legal adviser, Boyden Gray, and National Security Adviser Brent Scowcroft, were all directly involved in the efforts to thwart the congressional investigation of the Iraq policy. I will also detail some of the more prominent examples of why the President is continuing to thwart the Banking Committee's inquiry of the Banca Nazionale del Lavoro. These include new evidence that shows that 3 days prior to winning approval for a \$1 billion fiscal year 1990 Commodity Credit Corporation program for Iraq—these are taxpayer-guaranteed programs—the National Security Council and the State Department received a detailed secret CIA report on BNL indicating that BNL loans were used to fund Iraq's clandestine missile and nuclear weapons procurement program.

The report concludes that a failure to approve the \$1 billion fiscal year 1990 CCC program for Iraq would harm the United States-Iraq relations. The White House staff intervened in the BNL investigation being conducted by the U.S. attorney in Atlanta GA. Critical intelligence information about the BNL scandal was withheld from prosecutors in Atlanta until after the Iraqi invasion of Kuwait.

In my floor statement of March 16 this year I revealed how the Bush administration had set up a high-level interagency group of lawyers to thwart or obstruct these congressional investigations of prowar Iraq policy. I did not have evidence that the President or most of his closest advisers had direct

involvement in the attempt to stem the flow of Iraq information to the Congress. We did know that the President, both as President and before as Vice President, has intervened in behalf of aid to Iraq. We did not have the documentation showing his participation in this elaborate net that was initiated by the lawyer for the NSC, Rostow, in order to keep Congress in ignorance.

Last week I obtained new evidence showing that the President and at that time his principal adviser, John Sununu, and Brent Scowcroft and Mr. Robert Gates, the Director of the CIA, and Boyden Gray, all had direct roles in limiting congressional access to Commerce Department export licensing information on Iraq. These were the licenses that were doctored before they were given to another Member, a distinguished Member of our Congress, of the House of Representatives, in which the purpose, for military purposes, of those licenses were blotted out.

Before I get into the details of the new evidence, let me refresh my colleagues' memories about what I call the Rostow gang. In April 1981, the National Security Council's legal adviser, Mr. Rostow, called a high-level, interagency meeting to discuss congressional investigations of Iraq policy prior to the invasion of Kuwait on August 2, 1990. The meeting was chaired by Nick Rostow, the individual referred to, the General Counsel to the NSC. Mr. Rostow's previous experience includes playing a key role in the White House efforts to cover up the Iran-Contra scandal and to obstruct a 1988 OAO investigation of then-Vice President Bush's ties to Panamanian leader and drug lord, one Gen. Manuel Antonio Noriega. Also at the meeting were President Bush's General Counsel, Boyden Gray, and the top lawyers for the Departments of Justice, Defense, State, Treasury, Commerce, Agriculture, Energy, and the CIA. Each of the agencies had received requests for information from the Congress, and these lawyers were responsible for overseeing the collection and submission of the information. That is where I referred to this high-level legal team as the "Rostow gang."

The Rostow gang established a process whereby a congressional investigation had to hurdle a series of increasingly difficult barriers in order to obtain information from an executive branch agency. Ostensibly the function of the group was to review documents and information applicable to congressional requests for Iraq-related information and to establish a coordinated approach for the dissemination of this information.

On the surface, that is understandable. If you are in the executive branch and you have requests from various committees and members of the committees from the Congress, yes, what is wrong with coordinating? That is one thing. But in reality this gang was es-

tablished to limit and control and otherwise deprive this flow of information to the Congress, to delay it through dilatory practices, as they did with our Banking Committee. That was true even after the Banking Committee had issued about 30 documents or subpoenas, and we still are not getting the information. In reality, this was the main purpose of this gang, as well as to permit the White House to also regulate the flow of potentially embarrassing Iraq-related information to the Congress.

Now, all executive branches have done this. I have been in this Congress and I have been very fortunate and blessed to have been a Member of this great body known as the U.S. House of Representatives for 29 years and 7 months, and I can recall the 1974 episode. I also remember the so-called Houston memorandum, Houston then being one of President Nixon's highly placed Security Council, and there were other related agency leaders. I remember the memorandum he prepared. Then, believe it or not, there were other side Executive promulgations all under the secrecy of the President's National Security Council, either advisory or as memorandums, which were even intended to suspend the 1974 general elections, if necessary.

The whole point of all this basically, and the reason I am triggered off in my interest, is that we are at this time and period in our country's development facing the greatest constitutional crisis since the adoption of the Constitution, including the Civil War. Now, that has not come true yet, but that does not diminish our responsibility. We are charged under the Constitution to respect the integrity and the independent coequality and separateness of this body.

So the records obtained by the committee indicate that the Rostow gang met at least eight times during April, May, and June last year, 1991. The Banking Committee recently received documentation indicating that President Bush participated directly in the process of the Rostow gang. On June 8, 1991, there was a meeting of the Rostow gang chaired by the President's legal adviser, Boyden Gray. Lawyers from the State, Treasury, Commerce, and Justice Departments were in attendance. The meeting was called to discuss a long pending Commerce Department request for Iraq licensing information and to discuss congressional requests for data, including my own Banking Committee's request.

□ 1439

Most of the meeting was dedicated to the different strategies that could be used to limit the flow of information to Congress. Claims of executive privilege, which we received one from Treasury, were mentioned most often.

It is clear from interviews, documents, and notes that the strategy of the Rostow gang was to try to claim executive privilege or deliberate the

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process over as many documents as possible. The Congress was not to have the entire story on the administration's Iraq policy. It was hoped that making these claims would work to deny Congress the most embarrassing and damaging information on Iraq.

As I said before, not only executive agencies, but all people in power, whether it is political power, money power, or religious power, will do everything to try to not disclose an embarrassing mistake. We know that.

The Houston memorandum, for instance, was highly secret. It was kept from the American people. Everybody else knew about it. Finally it was published intact in a book by the assistant to J. Edgar Hoover, Mr. Sullivan, who died under, some people claim, mysterious circumstances. There he has it in the book.

So here is the Congress though, the Representatives of the people, supposedly, denied information through this highly secure state of national matters, that they alone, the American people and the Congress do not know about, but everybody outside of the United States knows. Let me tell you about that later on.

Congressional challenges to the fallacious executive privilege claims only worked to deny the submission of information. One agency's notes indicate that Robert Kimmitt of the State Department advocated the delaying of a request for information as long as possible so that the congressional subpoena authority would lapse at the end of the 1st session of the 102d Congress.

They knew that. As a matter of fact, we in the Banking Committee unanimously passed out these subpoenas and renewed them. This way the committee would have to go to its members for subpoena authority which would delay the production of documents for still more months.

The following quote from notes of a Rostow gang meeting provides a feel for the strategy that this group deployed. "By Monday, identify the most sensitive documents in each agency. We will go to the mat. There are many of these that will head toward denial."

Several Cabinet members, including Secretary of State James Baker and Education Secretary Lamar Alexander, were apparently opposed to certain aspects of the Rostow gang process. Notes indicate that they thought better of obstructing the Congress to the point of being subpoenaed.

Secretary Baker also did advocate withholding information related to the State Department's position on certain Commerce Department export licenses that were to be submitted to Congressman GELDENSON.

On October 26, 1991, Commerce Department memorandum states, "Note: Kimmitt/Baker (per Matheson): Do not want agency recommendations to be provided but will not argue for Executive privilege."

Other agency documents indicate that Brent Scowcroft played a promi-

nent role in determining what information should be provided to the Congress. I should say that is Gen. Brent Scowcroft, the National Security Director for this administration.

For example, a Commerce Department note related to the submission of a sanitized list of export license information to subcommittee Chairman DOUG BARNARD of the Government Affairs Committee states, "Up to Scowcroft at the NCS."

Other Commerce Department notes state, "Scowcroft willing to stand up and be counted."

Yet others state, "Scowcroft will take the lead on asserting executive privilege."

Mr. Robert Gates is also listed as a recipient of several Commerce Department memos dealing with the submission of information to Congress. So is Mr. Moebacher, the former Secretary of Commerce from Texas. In fact, notes related to Mr. Moebacher's response to a congressional subpoena for documents related to National Security Directive 315, NSD-315, and National Security Review 17, NSR-17, are rather interesting.

The notes state:

Secretary Moebacher will have to appear before Congress or run the risk of contempt, or appear without documents and still run risk of contempt. Able to say President directed him to withhold. No criminal risk. Bedford, U.S. Attorney, will not prosecute when officials withhold at direction of President on Executive privilege grounds.

The previous quote appears to indicate that the Rostow gang was contemplating what potential criminal liabilities lay ahead if Commerce Department Secretary Moebacher refused to comply with a congressional subpoena. It certainly appears that the President is willing to allow his name to be used as a defense for not complying with the law.

What could the White House and the Commerce Department be hiding that would be that sensitive? The question arises, did the President know his top advisers were using his name and good office as a shield?

So far I have shown that Brent Scowcroft, Robert Moebacher, James Baker, and other Cabinet-level members of the Bush administration participated in the efforts to limit the flow of information to the Congress.

What is most astonishing and disturbing is that the President of the United States appears to have been directing this effort. Notes from one Rostow gang meeting quotes the President's legal adviser, C. Boyden Gray:

The President will want to meet with all Cabinet Secretaries one-to-one to work it out adequately internally. Very sensitive. Senses impressed with the significance.

That is not the only occasion that the President had a lead role in the Rostow gang process. A Commerce Department memorandum dealing with the submission of information to Congressman GELDENSON again states:

This memorandum is to report that Counsel to the President, C. Boyden Gray indicated this week it may be necessary to have Cabinet level discussions with the President on Executive privilege issues.

The same Commerce Department memorandum states:

On June 4, 1991, Chairman GELDENSON sent you, Secretary Moebacher, a letter reiterating his request and complaining that we had not provided any documents. We, Commerce, will soon seek to meet with his staff to discuss a possible accommodation under which we would begin providing information. Any such accommodation will have to be cleared by the White House.

Any such accommodation would have to be cleared by the White House. These notes indicate that the President has participated in the effort to stem the flow of Iraq-related information to the Congress. The fact that President Bush would require his Cabinet to go along with the scheme is startling. With all the responsibilities associated with the Presidency of the United States, it is reminiscent of the Watergate days, that the President and his top advisers should have time to consider such trivial matters. The time and effort spent on developing schemes to thwart congressional oversight is monumental.

□ 1440

It is too bad the President didn't put as much effort into high level inter-agency meetings designed to ensure that law enforcement agencies had enough resources to track down and prosecute companies that violated United States export control laws related to illegal export to Iraq.

Now come these notes, and the question is, how come there are no indictments of these companies like Matrix Churchill that were helping to arm Iraq? Where is the Carlos Cardoen indictment? Sadly there has been no high-level Presidential directive aimed at bringing the United States companies that armed Iraq to justice. Instead, scarce resources are spent on coverup.

The President and his top advisers took an oath of office to uphold the Constitution, as we all do. The courts have repeatedly ruled that the Constitution granted the Congress a legitimate right to executive branch information, yet the President and his closest advisers have shown a complete disdain for the Congress and the Constitution.

These are frightened officials who apparently cannot face having their actions judged by the Congress. They hide behind the cloak of secrecy rather than facing up to their actions. The President, or at least people acting in his name and apparently with his knowledge, has conspired to keep the truth about his Iraq policy from the very public that elected him and fought and died to support his efforts in the gulf.

After reading the Rostow gang documents and seeing the great lengths to which the President has gone to stop

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investigations of his Iraq policy one can only wonder what everybody is hiding. Did the President do more than just oodles, powder, and diaper Saddam Hussein? As Frank Lemay said in his now famous October 13, 1980, memo, "If smoke indicates fire we may be facing a four alarm blaze."

I will now provide some details on the secrets that the President does not want the public to know about the ENL scandal and his handling of the OOC Program for Iraq.

A CIA report of November 6, 1980, indicates termination of the \$1 billion fiscal year 1980 OOC Program will harm United States-Iraq relations.

In recent weeks President Bush has been characterizing his administration's actions for Iraq as proper and above board. "We were just trying to bring Iraq and Saddam Hussein into the society of law-abiding nations." What a funny way to do that, by arming them, arming him in a way that I will show later on was unparalleled with any other country outside of the top two superpowers. He states that his plan was to woo Saddam Hussein with agriculture credits in order to encourage Iraq to join the family of nations, as I said. At least the President is now admitting that his policy failed, but he is still intent on misleading the public about certain aspects related to the OOC Program for Iraq and the ENL scandal and how the credits were multiplied, obtained through the ENL scheme of financing and this elaborate network of procurement that Iraq built up for military hardware, including chemical weaponry and nuclear.

In particular, the President claims that the decision to approve the \$1 billion fiscal year 1980 OOC Program for Iraq in November 1980 was a well thought out, prudent approach to allocating taxpayer resources. He also vehemently claims that the United States did not help enhance Iraq's missile and nuclear, biological, and chemical weapons capability. Both of these assertions are untrue.

While recently addressing an agriculture group the President stated:

I think we properly used these (OOC) credits for what they were designed to do, and I think it's been beneficial to American agriculture and I'm going to continue to use them in a way that's beneficial to American agriculture with the national interest of the United States foremost in my mind. So I can't say it's been perfect, but I do think that the department and I hope the White House has done a good job in the implementation of the law and the using of these credits.

It is obvious that the White House and the State Department did not act properly in granting the \$1 billion in OOC credits to Iraq in November 1980. They ignored many warning signs in granting agricultural credits to Iraq as well as what I am not mentioning here, and that is quite a number of hundreds of millions of dollars in export-import guarantees, on which Iraq has defaulted. For example, Iraq was not creditworthy, and this was known and

set forth, when the decision was made to give them \$1 billion in those new credits in 1980. The Iraq OOC Program was rife with corruption. We brought that out in the hearing we had in the committee, which at that time nobody was paying much attention to last year, and there was no proof that commodities destined for Iraq in the shape of agriculture commodities ever arrived in Baghdad.

The Lemay memo of October 13, 1980, indicated that there was a risk that Iraq was diverting agriculture credits to pay for weapons and nuclear equipment. In fact, just this morning it was announced on the radio that the United Nations is demanding access to the Iraqi Ministry of Agriculture's records. Clearly the United Nations suspects that Saddam Hussein used the OOC Program to acquire weaponry.

Well, I would like at this point in the RECORD, and I ask consent to do so, to refer to an article that I first read before the firing started in the Persian Gulf. And it was from, it is from the Bulletin of the Atomic Scientist. So many of my colleagues and others in the news media seem to think that I came across this and that the documents that I have been putting in the RECORD would be the exclusive source. Absolutely not. I had been triggered by such articles as this and others.

This article is entitled "Fueling the Fire: How We Armed the Middle East."

"The arms-trade danger is underscored by the relative ease with which Saddam Hussein was able to assemble a massive arsenal of conventional weapons. Between 1981 and 1982," that was the Iran-Iraq war in which, I think, very few Americans realized we were wholeheartedly committed by the Reagan administration on the side of Iraq. "Iraq purchased an estimated \$6.7 billion dollars' worth of arms and military equipment from foreign suppliers, the largest accumulation ever of modern weapons by a Third World country. Included in the largesse were some 2,300 modern Soviet and Chinese tanks, 64 Mirage F-1 fighters armed with Exocet missiles," and it was one of those from Iraq that killed 37 of our sailors in the Persian Gulf, "2,000 armed personnel carriers, and 300 Soviet-made surface-to-surface missiles."

Now, this article appears, and it is very extensive, and I am going to put it in the RECORD. I brought it to the attention of the staff.

□ 1982

I analyzed it, and I wondered how in the world we could have helped the very country that the President was already engaged in one of the largest expeditionary forces in the history of our Armed Forces against. The date of this article was December-January; that is, 1980-81. So it had to be prepared and printed before, long before any shooting started. I read it before the shooting started. It was after that that I introduced my impeachment resolution.

If the Members will read further they will see in this article where they previously bring out the help that continued to go to Iraq or Saddam Hussein; that is, after the cessation of the active shooting war between Iran and Iraq. At this time I include that material in the RECORD:

FUELING THE FIRE: HOW WE ARMED THE MIDDLE EAST

(By Michael T. Klare)

(Michael T. Klare is the five-college assistant professor of peace and world security studies based at Hampshire College, Amherst, Massachusetts. He is the author of *America's Arms Supermarket* (1983).)

Warning that "the virtually unrestrained spread of conventional weaponry threatens stability in every region of the world," President Jimmy Carter attempted in the mid-1970s to constrain U.S. military sales to the Third World and to negotiate a mutual curb on arms exports with the Soviets. These efforts failed. Carter's attempt to limit U.S. military sales collided with the use of arms transfers as instruments of diplomacy, especially in the Middle East—and his overtures to Moscow were frustrated by a resurgence of Cold War tensions. Since then, no serious effort has been made to curb international arms trafficking, and sales to the Third World have skyrocketed. As Carter predicted, numerous countries have acquired arms has fueled local arms races and inspired aggressive powers like Iraq to employ their bulging arsenals in unprovoked attacks on neighboring countries. If the present crisis in the Persian Gulf is to have any positive outcome, therefore, it should be to demonstrate the urgent need to curtail the global arms trade.

The arms-trade danger is underscored by the relative ease with which Saddam Hussein was able to assemble a massive arsenal of conventional weapons. Between 1981 and 1982, Iraq purchased an estimated \$6.7 billion worth of arms and military equipment from foreign suppliers, the largest accumulation ever of modern weapons by a Third World country. Included in this largesse were some 2,300 modern Soviet and Chinese tanks, 64 Mirage F-1 fighters armed with Exocet missiles, 1,000 armored personnel carriers, and 300 Soviet-made surface-to-surface missiles. These and other imported weapons enabled Baghdad to prevail in the Iran-Iraq war and subsequently led Hussein's vision of Iraqi domination over Kuwait and the western Gulf area.

U.S., French, and British troops now face the unappealing prospect of head-on conflict with Hussein's well-armed forces, but Western officials and arms suppliers are understandably reluctant to discuss their role in enlarging the Iraqi arsenal. Although direct U.S. arms sales to Iraq have been largely blocked since the late 1970s when Iraq became a client of the Soviet Union, Washington has on occasion permitted sales of military-related equipment and technology. Soviet leaders are also tight-lipped about Moscow's contributions to Hussein's military capabilities. But Iraq would not represent such a powerful threat to global peace and stability if world leaders had agreed to the mutual restraints Jimmy Carter proposed in 1977.

On the basis of this experience, U.S. officials should be wary of transferring more arms to the Middle East—at least until some multilateral constraints are in place. Instead, the Bush administration has decided to proceed with a new round of multibillion-dollar sales to friendly nations in the region. In August 1982, for example, the transfer of 100 M-60A3 tanks, 50 F-16 fighters, and 200 Stinger anti-aircraft missiles to Saudi Ara-

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tion (a \$2.3 billion deal), and in September he approved a \$21 billion package of tanks, aircraft, and missiles. The White House subsequently agreed to forward the second package in order to allay congressional concerns, but the items removed from this sale are incorporated into another package scheduled for early 1991. Bush also agreed in principle to sell \$1 billion worth of additional military hardware to Israel, and forgave a \$7 billion Egyptian arms debt in order to allow new military sales to Cairo. Meanwhile, as *Aerospacedaily* reported in early September, other major suppliers—including France and Britain—have been flocking to the Middle East, looking for new military sales of their own, helping to insure that 1989 and 1991 will break all existing records for arms sales to the region.

In approving new arms exports, the administration maintains that the weapons will help deter further Iraqi aggression. But most of the weapons ordered in 1989 and 1991 will not be delivered until 1992, 1993, or thereafter—long after the present crisis in the Gulf has been resolved by one means or another. These new arms shipments will then be available for other military purposes, regardless of the administration's claims. The intended beneficiaries of these sales will continue to pursue their own political and military objectives—often risking armed combat with their neighbors in the process. The most likely outcome of fresh arms deliveries to the middle East will thus be intensified regional tensions and a heightened risk of armed conflict.

This prospect dampens hope that the Persian Gulf crisis will help usher in a new era of peace and stability, as some in Washington suggested. "Out of these troubled times," George Bush told a joint session of Congress on September 11, "a new world order can emerge," one in which "the rule of law supplants the rule of the jungle, (and) nations recognize the shared responsibility for freedom and justice." While the Gulf crisis has engendered an extraordinary degree of international cooperation, it has not resulted in any talks on controlling the conventional arms trade. As long as contentious regional powers are able to obtain large quantities of sophisticated weapons, the prospects for averting future conflict are not promising.

The risk of escalating conflicts in volatile Third World areas has led nations to agree on the need to prevent sales of chemical and nuclear weapons and to curb the diffusion of ballistic missile delivery systems. Despite repeated crises, however, there are no such constraints on conventional weapons—especially on modern tanks and aircraft that can be used for aggressive military moves of the sort undertaken by Iraq. Are curbs on arms transfer possible?

"REVERSE DEPENDENCY"

Many countries offer some type of weapon for sale, but the trade in major combat systems is highly concentrated. According to the congressional Research Service of the Library of Congress, in the 1980s the United States and Soviet Union accounted for three-fifths of all arms sales to the Third World, and five other nations—France, Great Britain, West Germany, Italy, and China—shared another 23 percent. These nations remain the source of most heavy weapons supplied to Middle Eastern countries, and it is their sales policies that must be addressed if the flow of combat gear is to be constrained.

Many factors—political, economic, and military—figure in these nations' arms export behavior. For the superpower, economic considerations have generally played a secondary role to political and strategic considerations. Samuel Huntington sug-

gested in 1987 that U.S. and Soviet involvement in the Third World reflects "the bipolar structure of world politics and the competitive relationship they have with each other." In their mutual quest for strategic advantage, each superpower has sought to expand its own perimeter of influence while "minimizing the power and influence of the other." As part of this process, each side has used arms transfers to lure new allies into its own camp or to discourage existing allies from breaking away.

This use of arms transfers began in the Middle East in 1958, when President Gamal Abdel Nasser of Egypt turned to Moscow for the modern weapons the West had denied him. By giving Egypt advanced weapons, Moscow forged a *de facto* alliance with Cairo, and succeeded, for the first time, in leaping over the ring of hostile states organized by the United States to contain Soviet power in Eurasia. This East prompted Washington to establish arms-supply relationships with other countries in the region, including Jordan, Saudi Arabia, and Israel. These moves, in turn, aroused anxiety among the more radical Arab regimes, leading Syria, and the Iraq to forge military ties with the Soviet bloc. Egypt switched sides following the October War of 1973, but the Middle Eastern arms acquisition patterns established in the mid-to-late 1950s have remained essentially intact to this day.

In justifying U.S. arms transfers to the Middle East, U.S. leaders repeatedly asserted that supplier and recipient were bound by common opposition to communist expansionism. For their part, Soviet leaders stressed the common enmity against imperialism. However, the recipients' principal motive for acquiring arms was not the struggle between communism and imperialism, but rather a desire to offset the military might of their regional rivals or to deter attack by an antagonistic neighbor. As Stephen A. Walt suggested in his masterful study of Middle East alliance patterns, "The superpowers sought to balance each other, (while) their clients sought outside support to counter threats from other regional states."

At first glance, this system has a certain logic: each party receives something it wants, and the various arms deliveries balance each other out. In reality, however, the system is fundamentally unstable. No recipient is content with balancing its rivals, but seeks a margin of advantage—either to allow for a preemptive strike (should that be deemed necessary) or to compensate for the other side's perceived advantages. Any major weapons delivery to one side automatically triggers a comparable but larger delivery to the other, prompting a new round of deliveries to the first party, and so on. The only break in this grim pattern occurs when one side or the other seeks to forestall an imminent shift in military advantage to the opposing side by launching a preemptive attack—as has occurred again and again in the Middle East.

This instability is mirrored in the relations between client and supplier. By agreeing to provide arms to a client, the supplier seeks a local ally for its ongoing struggle against the other superpower. Once the relationship has been forged, however, the recipient comes to expect continuing and even expanded arms deliveries in exchange for its continued loyalty to the supplier—and any reluctance on the part of the supplier will be condemned as evidence of inconsistency and unreliability. Recipients naturally have the effect of prying additional or more advanced weapons out of the supplier's hands.

The result is "reverse dependency." The patron finds itself beholden to the good will of the client, and must satisfy the client's

appetite for modern arms. As Walt points out, "A large (military) aid relationship may actually be a reflection of the client's ability to extort support from its patron, rather than being a sign of the patron's ability to control its client." For the Soviet Union, the principal beneficiaries of reverse dependency were Egypt (until 1973), Syria, and Iraq; for the United States, they were Iraq (until 1978), Israel, and Saudi Arabia.

CARTER, IRAN, AND CATT

It was the U.S. arms-supply relationship with Iran that first prompted U.S. policymakers to perceive a need for restraint. The relationship was initially forged in 1954, after the U.S. Central Intelligence Agency engineered the overthrow of Mohammed Mossadeq and installed Shah Mohammed Reza Pahlavi as virtual dictator. During the late 1950s and throughout the 1960s, Washington provided Iran with a steady, but not exorbitant, supply of munitions in order to balance Soviet military deliveries to neighboring Iraq. In the early 1970s, however, there was a sharp increase in U.S. arms deliveries as the Shah, with mounting oil revenues at his disposal, sought to greatly enhance Iran's overall military capabilities. Iran's desire for arms was complemented, moreover, by a U.S. desire to recover some of the petrodollars sent to the Middle East in the aftermath of the 1974 OPEC oil price increase, and to implement the so-called Nixon Doctrine, which called for Third World allies to shoulder more of the burden of regional defense against Soviet-backed insurgents and regimes.

Between 1971 and 1978, Tehran ordered \$20 billion worth of advanced U.S. armaments—the largest arms export endeavor ever concluded with a Third World nation up to that point. For the first time, U.S. officials agreed to transfer front-line U.S. combat equipment, including F-14 aircraft, Spruance-class destroyers, and Phoenix air-to-air missiles. These sales were widely applauded by Defense Department officials and American arms makers. But Congress became concerned when the scale of the transactions were revealed and when it was disclosed that U.S. companies were using bribes to get Iranian officials to sign military orders. According to a 1978 Senate Foreign Relations Committee staff report, "U.S. arms sales to Iran were out of control" in the early 1970s, with senior administration officials routinely approving the Shah's extravagant arms purchases.

Suggesting that the United States had become "a kind of arms supermarket into which any customer can walk and pick up whatever he wants," Sen. Hubert H. Humphrey in 1975 sponsored legislation to give Congress vote power over major U.S. military sales. The resulting measure, later incorporated into Section 36(b) of the Arms Export Control Act of 1976, gave Congress some control over arms transactions, but unfavorable court decisions, and a waive allowing the president to overrule congressional reservations when he concludes that critical national security issues are at stake—which Bush used to rush tanks and aircraft to Saudi Arabia in September—have diluted congressional power.

With Carter's election in 1976, the momentum shifted to the White House. On May 13, 1977, Carter formally adopted an "arms export restraint policy"—Presidential Directive No. 13 (PD-13)—which imposed an annual ceiling on the dollar value of U.S. arms sales to all non-NATO nations except Israel, Japan, South Korea, Australia, and New Zealand, and restricted the export of certain high-technology weapons to Third World countries. "I have concluded," Carter affirmed on May 12, "that the United States

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will henceforth view arms transfers as an exceptional foreign policy instrument, to be used only in instances when it can be clearly demonstrated that the transfer contributes to our national security interest."

The Carter policy also called for negotiations with other suppliers—excluding the Soviet Union—that might lead to the adoption of multilateral cuts on arms transfers. Carter made clear that the United States would adhere to self-imposed limits only so long as it appeared likely that other major suppliers would follow suit. "I am initiating this policy," Carter noted, "in the full understanding that several reductions in the worldwide trade in arms will require multilateral cooperation."

At Carter's urging, U.S. and Soviet representatives began the Conventional Arms Transfer Talks (CATT). Most observers expected little progress, and were surprised when the first few rounds of talks, held in Washington and Helsinki in December 1977 and May and July 1978, resulted in agreement on parameters of a regime to restrict conventional arms transfers. In October 1978, U.S. negotiator Leslie Gelb testified that "harmonized national guidelines" similar to those of the London Suppliers' Group (for nuclear technology) were "realistic possibilities." But before any progress could be achieved, CATT fell prey to a smorgasbord of national enmities and to bureaucratic wrangling within the Carter administration that pitted Gelb against the president's hawkish security adviser, Zbigniew Brzezinski; no further talks were held after a fruitless negotiating session in December 1978.⁹

By late 1978, Carter's unilateral arms restraint policies and the CATT process had been essentially abandoned. The decline in presidential enthusiasm for these measures was prompted, to a considerable degree, by Iran's Islamic revolution and the Soviet invasion of Afghanistan—events that largely erased any public or congressional support for U.S. initiatives of this type. In a more fundamental way, however, the policy of restraint was doomed from the start by the administration's failure to question the politics of arms sales. Washington still viewed arms transfers as an effective tool for diplomacy—one of the few such tools available—and Carter was never able to significantly reduce the role of military sales in U.S. relations with such allies as Egypt, Iran, Israel, Jordan, and Saudi Arabia.

The fate of Carter's initiatives became apparent early on. In February 1978, only nine months after PD-13 was signed, the White House approved a multimillion-dollar sale of advanced jet fighters to Egypt, Israel, and Saudi Arabia. The "aircraft sale of the century," as it was called at the time, had been in the works for several years, and its cancellation would have provoked howls of dismay from the nations involved, along with threats to shop elsewhere—threats Carter was not prepared to face. For much the same reason, Carter then approved a new \$5 billion arms request from the Shah, despite Iran's internal unrest, which his advisers warned could result in chaos. Any hopes of keeping arms exports under the cutting Carter had set were dashed in 1979, when, as part of the Camp David Accords, the United States agreed to provide billions of dollars worth of new arms to Israel and Egypt.

"ARMS REPLACE SECURITY PACTS"

By the time Ronald Reagan became president in 1981, arms export restraint was no longer a major objective of U.S. foreign policy. Nonetheless, Reagan left scented to denounce his predecessor's initiatives and to promulgate a new, open-door approach to foreign military sales. In a May 1981 speech

unveiling the new policy, Undersecretary of State James L. Buckley affirmed that "this Administration believes that arms transfers, judiciously applied, can complement and supplement our own defense efforts and serve as a vital and constructive instrument of our foreign policy." Reagan quickly approved the sale of F-16 fighters to Pakistan, F-16 and AWACS radar patrol planes to Saudi Arabia, AH-1 Cobra helicopter gunships to Jordan, and similar items to other U.S. clients in the Middle East and Asia.

U.S. arms flowed to the Third World in record amounts. Capped by a \$5 billion sale of F-16s and AWACS to Saudi Arabia, total U.S. military sales rose to \$19.1 billion in fiscal 1981, an all-time record. Only the oil-induced recession of 1980-81, which greatly constricted the spending ability of would-be Third World arms buyers, prevented new records from being set in subsequent years. The recession notwithstanding, Washington continued to use arms sales to court U.S. allies by the Soviet Union. "Arms sales are the hard currency of foreign affairs," an unidentified State Department official told U.S. News and World Report in 1982. "They replace the security pacts of the 1950s."

What was true for Washington was true for Moscow. Lacking funds to offer economic assistance or capital investment, Soviet leaders employed the one foreign policy tool available to them in seeking influence abroad: arms transfers. According to the Congressional Research Service, Soviet arms transfers to the Third World from 1981 to 1988 amounted to a whopping \$19 billion (in constant 1988 dollars), an amount that exceeds the U.S. total by a significant margin. The major recipients of Soviet arms in the 1980s were clustered in the Middle East and South Asia, with the largest deliveries going to Algeria, India, Iraq, Libya, Syria, and the two Yemens.

As in past years, both superpowers also sought to woo away each other's allies and clients, often using arms transfers in the process. The Soviet Union, for instance, has readily supplied Jordan and Kuwait with modern weapons when leaders of these countries encountered difficulty in obtaining high-tech systems from the West. The United States, for its part, has encouraged several long-standing Soviet allies, including India and Iraq, to diminish their military dependence on the Soviet Union. Consistent with this policy, the Reagan administration raised no objection to French sales of advanced missiles and aircraft to Iraq, or to Brazilian sales of multiple-launch rocket systems. In a further effort to pull Baghdad out of the Soviet orbit, Reagan (and later Bush) authorized the sale to Iraq of \$1.5 billion worth of sophisticated U.S. scientific and technical equipment—much of which has apparently been used in the development of conventional, nuclear, and chemical weapons. Indeed, no longer was Washington to forge links with Iraq that Reagan and Bush continued to allow deliveries of such equipment even after it had become evident that this technology was being diverted for military purposes, and long after Iraq had used chemical weapons in attacks on Iran and its own Kurds.

As a result of these deeply entrenched arms-supply patterns, many Middle Eastern nations now possess armaments comparable or superior to those found among the front-line states in NATO and the Warsaw Pact. But if the genesis of these arms-supply relationships was the early Cold War, it would be logical for them to fade as the Cold War drew to a close. U.S. and Soviet leaders have lent some credence to this assumption. In an August 1989 letter to U.S. Secretary General Javier Perez de Cuellar, Soviet For-

eign Minister Eduard Shevardnadze wrote that "the Soviet Union considers that the intensification of the U.S. agenda of the problems of restricting international sales and supplies of conventional weapons is a logical development of the trend toward the internationalization of the dialogue on most important questions of world politics." President Bush and Secretary of State James Baker have made similar comments, noting that the control of conventional arms transfers should be considered along with efforts to curb the proliferation of nuclear arms, chemical weapons, and ballistic missiles.

Despite progress on the rhetorical front, however, the superpowers have taken no steps to curb their exports of conventional arms to the Third World. As noted above, the United States has announced record-breaking sales to Saudi Arabia, and sales of sophisticated arms to Egypt, Israel, Turkey, and the United Arab Emirates are in the offing. The Soviet Union continues to supply major equipment to India, Libya, and Syria and was pouring arms into Iraq until the moment Saddam Hussein ordered the invasion of Kuwait.

Economic conditions have something to do with this. The Soviet Union is desperately in need of hard currency for its industrial rehabilitation, and weapons are among the few commodities it can successfully market abroad. Arms exports give U.S. weapons manufacturers an attractive "safety valve" at a time of declining military spending at home. But political factors remain a major determinant of the superpowers' arms transfer policies. Moscow and Washington once sought Third World allies in their struggle with one another; today they seek allies in order to better position themselves for global influence in an open, multipolar era.

In the view of senior U.S. officials, this era is likely to witness the emergence of regional powers, many of which will be armed with weapons of mass destruction, and none will be hostile to long-term U.S. interests. "The emergence of regional powers is rapidly changing the strategic landscape," President Bush noted in an address to the U.S. Coast Guard Academy in May 1988. "In the Middle East, in South Asia, in our own hemisphere, a growing number of nations are acquiring advanced and highly destructive capabilities." posing a significant threat to U.S. security. In this environment, any effort by the United States to protect its overseas interests through military means—as in Operation Desert Shield—will require the cooperation of friendly Third World powers. "Where American intervention seems necessary," the U.S. Commission on Integrated Long-Range Strategy affirmed in 1988, "it will generally require the more cooperation with Third World countries than has been required in the past."

And cooperation is secured through arms transfers. In arguing for congressional approval of the administration's September 1988 emergency arms package for Saudi Arabia, Undersecretary of State for International Security Affairs Reginald Bartholomew told the House Foreign Affairs Committee that these sales are intended to "develop the interoperability that will allow the U.S. and other friendly forces to reinforce the Saudis more effectively should that ever again be necessary," and to "help contribute to stronger and more stable post-crisis security arrangements." In other words, arms sales are the essential glue for the "regional security structure" that Secretary of State James Baker told the House Foreign Affairs Committee on September 4 that the administration wants to establish in the Middle East.

Whether the Soviet Union has similar intentions cannot be determined. It is clear

that Soviet leaders want to maintain close ties with regional powers like Syria and India, and to establish new ties—centered by arms transfers if successful—with other powers in the region. Potential buyers are still able to play one superpower off against the other, obtaining favorable conditions for the acquisition of ever more capable weapons. Whatever impact the end of the Cold War may have in other areas, it has not diminished the intensity of local arms races—or the likelihood of regional conflict—in the Middle East.

SEVEN WAYS TO CURB ARMS

There is no escape from this pattern if the major powers continue to view arms exports as tools of convenience in their quest for political advantage, and if regional powers continue to rely on military means to resolve disputes with their neighbors. U.S. and Soviet leaders—and subsequently, the leaders of France, Britain, and China—must be convinced that a stable international order cannot be achieved in a world of uncontrolled arms transfers, and that curbs on arms are essential to post-Cold War stability. At the same time, Middle Eastern leaders must be persuaded that the best hope for long-term protection against dissension and bloodshed lies with a regional peace agreement that respects the national aspirations of unrepresented peoples, eliminates nuclear and chemical weapons, and limits the acquisition of offensively oriented conventional weapons.

These objectives may take years of effort, but intermediate goals could build momentum for more sweeping and long-lasting objectives. Seven measures could produce real improvements in global security:

Reconcile the CATT talks. As the early U.S.-Soviet negotiations over undertakes in this field, the Conventional Arms Transfer Talks are a useful mechanism. At the original sessions, CATT negotiators reportedly reached agreement on many basic elements of nomenclature, scope, and applicability which could save months of future talks and consultations. Resuming CATT talks would also send a powerful signal to other suppliers and to recipients that the two superpowers had agreed on the need to constrain the arms trade.

If the talks are resumed, the two sides should agree to set a mutual ceiling on arms transfers (perhaps \$5-10 billion each per year) while pledging to negotiate lower levels in subsequent talks, after experience has been gained in implementation and verification. The superpowers should also agree to ban or restrict the sale of particularly inhumane and destabilizing weapons such as wide-area cluster bombs, fuel-air explosives, incendiary devices, shoulder-fired anti-aircraft missiles, and long-range bombers.

Expand and enhance the MTCR. The Missile Technology Control Regime, established in 1987 to restrict exports of ballistic missile technology, represents an important precedent for multilateral action. But it has critical defects: several countries that have played a vital role in the transfer of missiles and missile technology to areas of conflict are not signatories—namely Argentina, Brazil, China, and the Soviet Union. And the MTCR generally assembles technology used in developing missiles for space exploration, most of which can be converted to military use.

To be effective, the MTCR needs to be substantially strengthened. Including the Soviet Union should be the most immediate priority, particularly as Soviet officials have already met with their U.S. counterparts to discuss possible cooperation in this area, and an agreement would be consistent with policy statements issued by Soviet leadership. It would then be easier to persuade other

holders to join. Restrictions on the transfer of sensitive technology, including space-related technology, should be tightened.

Establish controls on other advanced military systems. Instruments similar to the MTCR should be established for controlling the export of other destabilizing weapons, including cruise missiles, submarines, and deep-penetration strategic bombers.

Convene an international conference on nuclear and chemical disarmament in the Middle East. No lasting progress toward regional security can be made unless the nations of the Middle East agree to restrict possession of weapons of mass destruction and their means of delivery. A Middle East agreement will require progress in other areas, including boundary disputes. But the history of East-West negotiations demonstrates that progress on arms control will not occur unless countries talk to one another, and preliminary negotiations can often result in the adoption of confidence-building measures that help set the stage for lasting accommodation.

When the crisis in the Gulf is resolved, efforts should be made to convene a U.N.-sponsored regional conference on nuclear and chemical disarmament, which might also provide the impetus for adopting confidence-building measures tailored to the Middle East. Such a conference could include international inspection and monitoring of nuclear and chemical facilities; establishing "hot lines" for communication between hostile nations in a crisis; and mutual promises to sign and abide by the Nuclear Non-Proliferation Treaty and the proposed Chemical Weapons Convention. A U.N. conference could also develop into an ongoing negotiating process, as did the Conference on Security and Cooperation in Europe.

Impose economic and trade sanctions against nations developing nuclear weapons. The U.N. trade embargo has prevented the transfer of materials and technology to Iraq's weapons development and production facilities, including its nuclear and chemical installations. These sanctions should be maintained until Baghdad agrees to dismantle its nuclear and chemical weapons facilities under international inspection. When the current crisis is over, the United Nations should develop an array of trade and economic sanctions to apply against nations that persist in developing such weapons after international norms are established. Sanctions could be limited to a ban on transfers of military technology in the case of states that agree to participate in regional negotiations, or extend more stringent measures if states refuse to participate in such a process.

Reduce or restrict international aid to nations developing domestic arms industries. Many of the more affluent Third World countries are developing elaborate military-industrial complexes modeled on those found in the major military powers of the industrialized world.

These complexes contribute to the worldwide diffusion of conventional weapons, and, in the case of Iraq and Iran, help to sustain regional wars of great duration and ferocity. Most of these countries receive significant technical and economic assistance from the North that enables them to divert scarce national resources to pet military projects. In the future, such assistance—whether provided by individual governments or by multilateral agencies like the World Bank—should be denied to states that divert an excessive share of their national income to military-industrial purposes.

Establish an international clearinghouse for intelligence on clandestine arms technology transfers. Iraq's apparent success in acquiring sophisticated arms-making technologies through black market arms chan-

nels highlights the need to collect and process intelligence on clandestine arms operations. A clearinghouse could track suspicious "front" operations in target countries and inform police and military authorities of any apparent wrongdoing. Such a mechanism might draw on the staff and experience of COCOM (the Co-ordinating Committee for East-West Trade Policy), the Western agency established to intercept transfers of high-technology goods to the Soviet bloc.

In the absence of controls, the arms trade will continue to operate as in the past, and there will be a continuing series of regional crises and conflicts. But these seven measures could significantly improve the global security environment and set the stage for a comprehensive solution to the Middle East's outstanding security concerns.

Presidents Bush and Gorbachev have spoken glowingly of the new world order they hope to construct on the ruins of the Cold War system. But that order can only be built on the premise that have aided international behavior in the past. Obsolete practices will have to be abandoned, particularly the practice of supplying implements of war in return for political promises and favors. Only when munitions are eschewed as an instrument of statecraft and diplomacy will a more peaceful order be possible.

FOOTNOTES

¹ Richard P. Grimsrud, *Trends in Conventional Arms Transfers in the Third World by Major Supplier, 1952-1989* (Washington, D.C.: Congressional Research Service, Library of Congress, 1989), p. 34.

² Stockholm International Peace Research Institute, *SIPRI Yearbook 1989* (Oxford and New York: Oxford University Press, 1989), and earlier editions.

³ Samuel P. Huntington, "Patterns of Intervention: American and the Services in the Third World," *The National Interest* (Spring 1987), pp. 15-25. For a discussion of supplier and recipient motives, see Andrew J. Pierre, *The Global Politics of Arms Sales* (Princeton: Princeton University Press, 1989).

⁴ Stephen M. Walt, *The Origins of Alliances* (Ithaca, N.Y.: Cornell University Press, 1987), pp. 10-103.

⁵ Quoted in *New York Times*, Oct. 15, 1985.

⁶ U.S. Congress, House Committee on Foreign Affairs, *Changing Perspectives on U.S. Arms Transfer Policy*, Report by the Congressional Research Service, 97th Cong., 1st sess., 1981.

⁷ U.S. Congress, House Committee on Armed Services, *Indian Ocean Arms Limitations and Multilateral Cooperation on Restraining Conventional Arms Transfers*, Hearings, 95th Cong., 2d sess., 1978, p. 17.

⁸ See Jo L. Huberman and Anne Hasting Cahn, "The Conventional Arms Transfer Talks," in Thomas Ohlson, ed., *Arms Transfer Limitations and Third World Security* (Oxford: Oxford University Press, 1989), pp. 116-25.

⁹ James L. Buckley, address, Aerospace Industries Association meeting, Williamsburg, Va., May 21, 1981 (U.S. State Department transcript).

¹⁰ Quoted in *Wall Street Journal*, June 10, 1989.

¹¹ *Investment*, Aug. 16, 1989 (translated in Foreign Broadcast Information Service—Soviet-Satellite, Aug. 16, 1989, p. 5).

¹² U.S. Commission on Integrated Long-Term Strategy, *Domestic Defense* (Washington, D.C.: U.S. Government Printing Office, 1984), p. 16.

¹³ Testimony, October 3, 1989 (State Department text).

Here is the President telling us now that he would continue, and depend on him to protect the national interest, these agricultural credits. Here are the records, which we have already published in the CONGRESSIONAL RECORD, from the Federal Reserve Board members at the Advisory Council, the National Advisory Council to the Export-Import, the professional credit analyzer saying, "But look, Iraq has defaulted with six other countries," most of those that had obtained these arms that I just referred to in the bulletin of the Atomic Scientist, and it is not creditworthy, but then here comes the

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CONGRESSIONAL RECORD—HOUSE

H0011

Vice President at that time and then later the President, Bush: here comes the Deputy Secretary of State, one Eagleberger; and here comes Secretary of State James Baker and says, "We, so, this is essential to maintain our relations with Iraq. We have to do this. It is essential to our political foreign policy."

This is where I came in. This is where I still am, because at this moment there is no telling how many BNL's and BCCI's which incidentally, Mr. Speaker, our committee is not finished with yet, there are right now, because of our lax defense of our national interests from the standpoint of safety and soundness, not only of our banking system, but the use of our credit and our Government's credit. We have learned nothing since then. We are now doing the same thing with other countries that conceivably, and God forbid, I pray daily does not happen, the so-called Balkan area in flames, yet it has enlarged and it is headed that way. We are exposed with millions of dollars in guarantees to some of these countries that might be on the opposite side before too long, such as with China.

We not only consider China as a favored nation trading partner, but we have also extended some governmental guarantees that I think are just absolutely fantastic and unbelievable.

Our committee has jurisdiction, in accordance with the definition of the rules providing its jurisdiction, on all credit-lending activities. This is where we come in. This is why some colleagues seem surprised when I say, "We have jurisdiction over Farmer Mac, the credit-lending secondary banking system, and all of this system is shaky." It is very shaky. We are in an acute critical condition.

However, there seems to be no general awareness, like in 1988 there seemed to be and there was a planned effort not to reveal the serious conditions of the S&L's. Incidentally, the banking system, too, even though it has been denied, but today it is the banking system, and still continuing S&L conditions.

Now can the Federal Reserve Board, which is our monetary policymaking body, be able to set the right monetary policy for a country if it has no knowledge about \$1 trillion of this kind of money floating around in this country? I am not talking about the external money, international, I am talking about that that can be leveraged with just a small chunk of it. My estimate is that in this there is at least \$1 trillion involved in the drug money laundering illegality that is so nefariously adverse to the best interests of our country, and at the bottom of it all is financing, banking. That is why we are concerned.

I am not interested in the foreign policy, but I am if that politics of foreign policy is used to cancel out the policy of the monetary-setting bodies, and our central bank, as it is known. That is where I come in and that is where I have stayed.

The main memo of October 1990, indicated that there was a risk that Iraq was diverting, as I said and repeat, credits to pay for weapons and nuclear equipment. In fact, just this morning, I repeat, the United Nations certainly suspects it and they are there now in Baghdad, camping out. They have been refused access, but they are still there.

It is clear that the administration violated its own policy and used food as a political tool. All these years we have been denying it to the world, and here it is. Ambassador April Glaspié admitted that, and I placed the record in the CONGRESSIONAL RECORD. The decision to approve the fiscal year 1989 CCC Program for Iraq is not without cost. To date the taxpayer is out more and still in default over \$400 million, but 39 American banks have already been paid out \$1.5 billion of taxpayers' money, so the exposure to the taxpayer for these activities, not counting the Export-Import Bank, will be around \$2 billion. How desperately our States, our cities, our communities, our school system needs just a little chunk of that \$2 billion, which could make a big difference to any one of our more seriously detrimentally impacted communities. We are out. The taxpayer is going to have to make up for the default on those guarantees.

The Italian bank, and nobody seems to realize, even some of the people, the regulatory authorities, do not seem to realize that when we talk about foreign banks, like the BNL, we are not talking about an entity like a United States bank or a private bank. These are all government-owned banks.

The Italian Government, the Italian Senate, to which, incidentally, I owe a great debt of gratitude, particularly to the chairman, Senator Carla di Roma, who did a magnificent job in its investigating committee. They came over and I met with them. In fact, when the Federal Reserve Board would not give me some documents we found a way to get them from this other source, so that the Italian Government and the taxpayers of Italy will be out about another \$2 billion on BNL for that and other involvement, incidentally, where BNL and BCCI dovetail. It is like a giant web, a big web. We touch one end and the whole thing quivers.

The decision to approve that fiscal year 1989 CCC Program for Iraq is not without cost. I repeat. That is not the end to this costly story of imprudent and improper management. It gets worse. Two days prior to winning approval for \$1 billion, the National Security Agency and the State Department received a detail secret CIA report on BNL. The CIA report is entitled, "Iraq-Italy, Repercussions of the BNL-Atlanta Scandal." The report was prepared by the CIA's special division, the Office of the Near East and Southeast Asia Analysis.

C 1990

I am writing and I have sent a letter to the CIA Director asking him to de-

classify this report so that it can be made public, to wit: to us, the Congress.

The secret report indicates that BNL loans were used to fund Iraq's clandestine military procurement network which was operating in the United States and Europe. The report indicates that several of the BNL-financed front companies in the network were secretly procuring technology for Iraq's missile programs and nuclear, biological, and chemical weapons programs.

The President recently denied point blank that the White House or the State Department knew of the charges that Iraq was diverting United States assistance to build nuclear weapons. The President was quoted as saying:

We didn't know that. The State Department didn't know that. You can talk about what one State Department employee ... and if we had known it wouldn't have happened.

Given the contents of the CIA report the President's statement seems rather disingenuous. The White House and State Department were keenly aware that BNL loans were tied to Iraq's highest priority weapons programs. The CIA also had plenty of information in its files showing that the Iraqis involved in the BNL scandal represented the highest levels of the Iraqi Government.

For example, one of the unindicted coconspirators in the BNL scandal is Hussein Kamil. Mr. Kamil is Saddam Hussein's son-in-law and at the time he was in charge of Iraq's massive military industrialization effort. At the time of the BNL scandal the CIA listed him as the second most powerful man in Iraq. At this point I would like to place a telex in the RECORD showing Kamil wishing the employees of BNL a happy Easter.

The telex referred to is as follows:

MARCH 28, 1989.

For the attention of Mr. C. Drogatz:

I would like to express my greetings and personal good wishes for you and your family and all your staff at Del Lavore Beach-Abkhaz on the occasion of the Easter festivities. Wishing you all happiness, good health, and prosperity.

HUSSEIN KAMIL KAMIL,
The Ministry of Industry
and Military Production.

Another example is Safa Al Habobi, one of the Iraqis indicted for his role in the BNL scandal. Al Habobi was the head of Iraq's secret military technology procurement network. He directed how much of the BNL money was spent and at the time of the BNL raid the CIA lists him as an Iraqi intelligence agent.

It is important to note that the BNL investigation in Atlanta was not provided access to the CIA report on BNL or the CIA information on Mr. Kamil and Mr. Al Habobi and others. In fact, the committee has been told that requests for CIA information went unanswered until after the Iraqi invasion of Kuwait—1 year after the BNL raid.

H 0012

CONGRESSIONAL RECORD—HOUSE

July 7, 1983

The lack of CIA cooperation with the prosecutors in Atlanta was a calculated administration effort to conceal the true nature of the BNL scandal and to hide the level of Iraqi Government complicity in the scandal. The CIA could have easily opened its files and allowed the Atlanta prosecutors to know what they were up against. New leads could have been pursued, but that is not what happened. Instead the CIA was silent. It is downright criminal that the CIA did not help the prosecutors in Atlanta understand BNL's role in funding Iraq's military technology procurement network. Astonishingly, it appears that the Bush administration wanted Iraq's clandestine procurement activities to continue.

It is beyond me how the President and his advisors can claim that the decision to approve \$1 billion in CCC credits for Iraq was prudent. Providing Iraq with a billion dollars in additional credit while knowing of Iraq's sinister intentions is inexplicable. How can the administration explain that? Clearly they don't want to.

The CIA report also sheds light on the reasons why the President authorized the release of the CCC credits for Iraq despite all the ominous warning signs.

In the late summer of 1980 Iraq was in dire financial straits. Iraq badly needed the \$1 billion allocation of CCC credits in order to meet the food demands of its people. When the BNL raid occurred in August 1980, investigators found over \$4 billion in unrepaid loans to Iraq—\$4 billion, not million, billion—three quarters of a billion of the loans were guaranteed by the CCC Program. One of the main focuses of the investigation was fraud against the CCC Program.

Starting in August 1980, it was obvious that the new fiscal year 1980 CCC Program for Iraq was in trouble. On top of the BNL scandal the Treasury Department, OMB, and the Federal Reserve doubted that Iraq could make good on \$1 billion in new guarantees that had been planned for fiscal year 1980. In September 1980, these agencies balked at that Agriculture Department proposal to go ahead with the full \$1 billion program.

The State Department and White House were stunned. Together they were just completing work on a new Bush administration policy for the Middle East called National Security Directive 26. The publicly available part of NSD 26, which was signed by the President on October 3, 1980, states:

Normal relations between the U.S. and Iraq would serve our long-term interests and promote stability in both the Gulf and the Middle East. The U.S. Government should propose both economic and political incentives for Iraq to moderate its behavior and to increase our influence with Iraq.

The CCC Program for Iraq was the largest economic incentive the United States had to offer—termination of the program would frustrate the President's orders. A State Department

memo to Secretary Baker dated October 24, 1980, states:

Earlier this month the President signed NSD-26 mandating pursuit of improved economic and political ties with Iraq. Our ability to influence Iraqi policies is areas important to us, from Lebanon to the Middle East peace process, will be heavily influenced by the outcome of the CCC negotiations.

Consequently, the White House and NSC devised a strategy to win approval for the corruption riddled program. In early November, Secretary of State James Baker called Agriculture Secretary Clayton Yeutter pledging his support for the full \$1 billion program. At the same time Deputy Secretary of State Lawrence Eagleburger called his counterparts at the OMB and Treasury Department to ask for their support for the full \$1 billion program for Iraq.

What is generally not known is the role the CIA report played in the decision to grant the CCC credits for Iraq. The CIA report states that a failure to approve the full \$1 billion CCC Program for Iraq will harm United States-Iraq relations. It was with that secret information in hand that the White House and State Department went to the NAC Deputies Committee meeting of November 8, 1980. The various agencies discussed the proposal for the CCC Program for Iraq. Notes of the meeting state:

The State Department's Robert Klimaitz stated that his comments reflected the views of Secretary Baker who believed that the program in Iraq was crucial to the U.S. bilateral relationship with Iraq. He noted that in National Security Directive 26 the President had called for improvement of the U.S. relationship with Iraq and bilateral trade expansion offered a good means to achieve that end. To abruptly terminate the CCC program in Iraq would, he said, clearly run counter to the President's intention and would furthermore cause a deterioration in our relationship with the Iraqis.

The high level lobbying effort paid off. This time the CCC Program for Iraq was approved. The CIA report shows that unless the full \$1 billion CCC Program was approved, the President's goal of improving relations with Saddam Hussein as spelled out in NSD-26 would be frustrated. Making NSD-26 work appears to be the main motive and driving force behind the decision to release the CCC credits. The problem was that NSD-26 was flawed—closer relations with the brutal Saddam Hussein was not a prudent strategy.

It is reasonable to infer that the President himself authorized the release of the CCC Program for Iraq and it is the President who should answer to the taxpayers for this faulty judgment. That inference is supported by recently acquired Treasury Department notes of November 7, 1980, which state: "Non-attributable: Rumor: White House ordered release of the \$1 billion."

These revelations are important for several reasons. First and foremost is the striking stupidity in giving Saddam Hussein \$1 billion in credit when he is obviously intent on building

weapons of mass destruction. The administration clearly had more in mind than helping American farmers.

The Bush administration had a policy of not allowing food to be used as political weapons, yet clearly the CCC Program was used as a political tool and not a market enhancement mechanism as the highest levels of the administration have claimed in recent congressional testimony.

□ 1510

The decision to approve the CCC credits also shows that prudent management was abandoned for political expediency, and yet in recent testimony before the Banking Committee Mr. Lawrence Eagleburger stated:

I intend to make clear that the administration followed a prudent policy toward Iraq, including the management of the CCC Program. . . .

Now, this is the same Mr. Eagleburger, Deputy Secretary of State, when in his appearance before a committee, looks at me and says, "Well, it was not until I saw in the CONGRESSIONAL RECORD in preparation for this hearing the cable memorandum that you put in the RECORD that I did not even know existed." I said, "Well, you signed it." He said, "That is true." It is signed as Acting Secretary of State. But somebody sent that cable. To whom? To our Ambassador in Baghdad. What did the cable say? It said, "Hey, we are going to get that help for Saddam Hussein. Be sure to tell him," but then the last paragraph said, "But do not tell anybody back here in the States."

So when we bring this out, the Deputy, with great ado, alarms the document on the table in our committee hearing room and says, "That proves I did not know about this. I would never have written such a stupid paragraph." Well, who then is acting? Who is responsible for anything then?

If I should send a cablegram like that and it is over my signature, I should not be answerable for that? I should blame some unknown, undetermined, unidentified, locally placed State Department Foreign Service Officer somewhere? Of course not.

But those are the times we are living in. Yes, we made a mistake, but nobody is taking responsibility, no accountability.

What are we waiting for in our country? What is the net dead-end result of all of this on levels reflected, as I can tell you in hearing after hearing in the Banking Committee, from the high and the low and the banking and big financial experts and all? "Yes, sure, but we are not responsible," because, you know, everybody was riding that merry-go-round at the time. You know, that was the thing to do. But what answers for it? And what are you going to do to make up for these gross errors, and if not greedy, greed-driven activities, and redeem such as it can the national interest? No volunteer there.

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The scandal does not end here. The committee has learned that in late October-early November 1990 the White House called the assistant U.S. attorney in Atlanta to discuss the BNL case.

Last week the committee was provided access to a pile of long lost Treasury Department notes on the NAC. The committee asked for them in October 1990, and they were recently uncovered and turned over by an honest Treasury Department lawyer.

These meticulous and comprehensive notes were taken by a dedicated career Treasury Department employee who was assigned responsibility for monitoring the BNL scandal and the NAC decision on the fiscal year 1990 OCC Program for Iraq.

Last, the committee staff, and let me here give credit to the staff that has been the most rewarding. We have very limited staff, but Mr. Dennis Kane, who has been in the forward of this, under the most able direction of the staff director, Mr. Meek, Kelsey Meek, with credit for painstaking night after night all night, weekends all night, poring through these documents, assembling them, and then consulting and identifying.

Mr. DORGAN of North Dakota. Mr. Speaker, will the gentleman yield?

Mr. GONZALEZ. I am happy to yield to the gentleman from North Dakota.

Mr. DORGAN of North Dakota. Mr. Speaker, I wanted to observe that I have watched the gentleman in the well, the gentleman from Texas [Mr. GONZALEZ], take the floor over recent months on this same subject, and I think that the House of Representatives owes the gentleman from Texas [Mr. GONZALEZ] a debt of gratitude for the work he has done.

Mr. GONZALEZ. I thank the gentleman from North Dakota [Mr. DORGAN].

Mr. DORGAN of North Dakota. Clearly something strange has gone on here under the cloak of great secrecy in which billions of dollars have flowed in unusual ways that have apparently ended up buying weapons for Saddam Hussein, and the gentleman from Texas [Mr. GONZALEZ] has been determined to find the answer to these questions that have been posed, and I think the House owes him a debt of gratitude. I do not know where this all leads, I do not know where it all ends up, nor I suspect does the gentleman from Texas, but the American people deserve the truth. They wanted to know what has happened.

Mr. GONZALEZ. The gentleman is correct.

Mr. DORGAN of North Dakota. What happened, why it happened, under what conditions it happened, who authorized it. That is what the gentleman from Texas seeks, and I hope that he will pressure all of the forces in the House and in the whole Congress and in the executive branch to make sure the mechanisms are available for you to get at the truth so that the American

people can understand what the truth is.

Mr. GONZALEZ. I thank the gentleman very much. I say to the gentleman from North Dakota [Mr. DORGAN], I deeply appreciate that, and particularly coming from a gentleman I honor and esteem highly. I want him to know that he has succinctly stated the main underlying motivation that guides us here, and as I said, insofar as these collateral issues touch on the banking and financial and the safety and soundness of our system, which unfortunately and sadly is not so safe and so sound, as the gentleman well knows, and the gentleman has developed quite an expertise in that line even though he is not a member of the Banking Committee, and we respect him very much. But I thank the gentleman again for his generous words.

So we had last week finally provided a look at a pile of Treasury Department notes on the NAC. It resisted, denied, in fact, I had one letter in which Treasury interposed executive privilege, but we persisted and finally, last week, the staff was permitted to look at some of these documents, not all that we are still looking for, and the committee asked for them in October 1990. That is over a year and a half ago.

We were told that, "Well, we did not know"; they did not know they had them. So here they uncovered them last week, and they were turned over to an honest Treasury Department lawyer, probably a career.

You know, we always forget how many dedicated career, what we used to call civil service, but which has been undone, that on the subleadership level, and I know in the case of the regulators and the old Home Loan Bank Board how many heroically performed despite facing either the loss of their careers or the removal of their jurisdiction if the big cheeses up in D.C. did not like what they were doing.

Now, what I have said all along is that secrecy by its very, very identification is an enemy of democracy.

I have served, and I have been privileged, as I have said before time and time again, to serve on the local legislative level 3 years, 30 years and 6 months ago city council of my city, State senate 6 years, and 30 years here, 30 years and 7 months here on this level, and I can honestly tell anybody that I know of no occasion in which I would participate or know of any participation in any matter that had to be secret, that the doors could not be thrown open, the windows opened, and I cannot for the life of me understand all of this penchant for secrecy other than the fear of ridicule for being shown up to have made a very dumb mistake.

Well, we all make mistakes, but if we then try to deny it, and then what is worse, cover up or obstruct the legitimate jurisdictionally wise organ of our Government that is directly responsible to the people itself, the knowledge and the inclination that men such

as J. Madison and the ones who wrote the Constitution say is indispensable.

This employee had regular contact with the various agencies involved in the handling of the BNL scandal and the decision to approve the OCC Program for Iraq. This includes regular contact with the State Department, Agriculture Department, Federal Reserve, and the Justice Department. The contacts also included the White House.

On November 7, 1990, this individual had a conversation with a fellow Treasury Department employee and the assistant U.S. attorney in Atlanta, Ms. Gail McKemie. The notes of the conversation read:

McKemie: She has been called by the White House—get impression (they are) concerned about embarrassment level.

It is clearly improper for the White House to be calling an assistant U.S. attorney to talk about an open criminal case—especially a case as sensitive as the BNL case. A call from the White House could certainly be perceived as threatening.

This revelation raises a myriad of questions:

Who at the White House made the call?

Who at the White House authorized the call?

Was the prosecutor required or asked to reveal grand jury secrets?

Who at the Justice Department was aware of the call?

Did the Justice Department approve of the call?

Why was the call made in the first place?

It is interesting to note that during recent hearings before the Judiciary Committee whether to appoint an independent counsel Attorney General Barr did not inform the committee that the White House called the prosecutor in Atlanta to discuss the BNL case. Clearly someone at the White House wanted the prosecutor to know that the BNL investigation was an extremely important case.

BOSTON GAINS STILL ACTIVE

I am sorry to report that the President's efforts to thwart the Banking Committee's investigation of BNL and Iraq policy are still quite active. On May 18, 1992, the Attorney General sent me a letter stating that the Banking Committee would not be provided access to classified information. The Attorney General spurnously claimed that I harmed the national security by placing documents in the CONGRESSIONAL RECORD during my floor statements on BNL.

I should note that the Attorney General did not send his letter until nearly 4 months after I entered the first documents in the CONGRESSIONAL RECORD. In fact, the Attorney General's letter arrived just after the Bush administration started getting negative press for its failed policy toward Iraq.

On numerous occasions I have asked the Attorney General and the State Department to demonstrate how the

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documents I placed in the CONGRESSIONAL RECORD harmed the national security. Not surprising, neither has replied and I bet they never will because the documents in no way harmed the national security.

The truth is that the President and his advisers are hiding behind the cloak of national security to cover up embarrassing and potentially illegal activity related to his policy toward Iraq.

INDEPENDENT COUNSEL

The Judiciary Committee is now contemplating appointment of an independent counsel to investigate potential criminal activities associated with the Bush administration's policy toward Iraq. It is now clear that the President, Brent Scowcroft, and other top advisers had their hands in the effort to thwart congressional oversight of Iraq policy.

We know that the administration submitted false Commerce Department export licensing information to the Congress. Before today all we knew was that Dennis Kloeke was pointing his finger in the direction of the White House.

We now know that the White House called the assistant U.S. attorney in Atlanta just prior to deciding to approve the \$1 billion fiscal year 1990 CCC Program for Iraq in November 1989. That was clearly improper.

We know that the White House and State Department had CIA information showing how the loss of BNL loans could harm Iraq's procurement effort which apparently was the linchpin of the policy to mollify Saddam Hussein, a man who a few months later would be referred to as Adolf Hitler by President Bush.

The White House wanted to keep the money and the technology flowing to Saddam Hussein. And naturally, today they do not want to talk about it. But it will not go away. The people of this country are entitled to know what happened and why.

□ 1520

The SPEAKER pro tempore (Mr. Andrews of New Jersey). Under a previous order of the House, the gentleman from Indiana (Mr. BURTON) is recognized for 60 minutes.

(Mr. BURTON of Indiana addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Maryland (Mrs. BENTLEY) is recognized for 60 minutes.

(Ms. BENTLEY addressed the House. Her remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Georgia (Mr. ONORICH) is recognized for 60 minutes.

(Mr. ONORICH addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from California (Mr. DREIER) is recognized for 60 minutes.

(Mr. DREIER of California addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

THE FUTURE OF AMERICA

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from North Dakota (Mr. DORGAN) is recognized for 60 minutes.

Mr. DORGAN of North Dakota. Mr. Speaker, yesterday I was in my district in the State of North Dakota and I met someone who said that they had been involved in some investments in the country of Poland. I was thinking about that on the airplane yesterday coming back to Washington, DC, thinking a bit about Poland and thinking about an experience I had here in the House of Representatives about 2 or 3 years ago. It was kind of an unusual experience.

As you know, Mr. Speaker, we have joint sessions of Congress in which the Senate comes over in this Chamber, meets with the House, the diplomatic corps comes, the President's Cabinet arrives, the Supreme Court shows up, and then we have an address. Typically, the address is by the President of the United States to give a State of the Union or some other special address. In other cases, it is from a head of state.

In this case, several years ago the Speaker of the House recognized and the Doorkeeper announced from the back door of the Chamber a gentleman from Poland. The Doorkeeper said "Mr. Speaker, Lech Walesa from Poland." and Lech Walesa marched in that back door and walked to the front of the room and stood at the podium, just beneath where the Speaker now sits, and the joint session of Congress rose and gave him a long standing ovation.

This rather short, pudgy man, with a mustache and red cheeks, was not a politician. He was not a diplomat. He was not an intellectual. He was not a scholar. He was an electrician, an unemployed electrician at the shipyard in Odanek, Poland, who 16 years earlier had been beaten by the Communist Secret Police in Poland because he tried to lead a labor strike for a free labor movement in Poland.

Lech Walesa stood at that microphone and told us of the experience. Ten years earlier he had been beaten in the shipyard in Odanek for trying to lead a labor strike. They took him and threw him over the fence outside of the shipyard, and Lech Walesa lay there bleeding, unemployed, beaten, wondering what to do next, wondering about the future, his family, his country, and this common man, this ordinary man

with extraordinary courage pulled himself up off the ground, climbed back over the fence and went back into that shipyard once again, and 16 years later he showed up at the door of this House of Representatives as a leader of Poland, now President of Poland.

From that podium he said something to us that I shall never forget. He said, "You know, we didn't even break a window pane in Poland. The Communists had all the guns. The Communists had all the soldiers. We had no bullets. What we had was an idea and ideas are more powerful than weapons, the idea that free men and women should be free to make their own choices."

And the power of an idea toppled communism in Poland, and then, too, it toppled communism in East Germany, Czechoslovakia, and Romania. Eastern Europe is largely free and democratic as a result of the courage and leadership of common people willing to exhibit uncommon courage to stand for freedom.

I was thinking of that yesterday because I was thinking about the political trouble in our country, all of the nail biting, all of the knashing, all of the concern, all of the fretting that goes on at the White House and here in Congress and in the cafes all around the country, in the small town restaurants, wondering what is becoming of this country. How do we fix what is wrong? What on Earth has happened to America?

I wondered yesterday, thinking about all of this, where is the courage? Where is the courage in the White House, in Congress; yes, even in the restaurants across the country for all of us to stand together and decide that we are as good in this country as anybody else in the world? We took on the world and beat them economically. We became the most powerful economic center in the world. We made the best products, sold them at the best prices. We outperformed everybody. We outtraded everybody and we became No. 1.

I grew up in a town of 360 people, went to school there for my first 18 years. Every day that I walked to school, I knew this with certainty. This country was the biggest, the best, the strongest, the most important, and we were No. 1. I knew it without a debate as I walked to school and as I came home from school. I did not think much about it. I, like everybody else in this country, just took it all for granted, but it is not true anymore. We live in a different world. We now face enormous challenges.

We had the chief economist of the Deutchbank in Japan come to Congress and testify a couple weeks ago and here is what he said, and it reaffirms the knot of fear in the stomachs of most Americans. It is why people are worried. It is why they are biting their fingernails about the future. Here is what the chief economist of the Deutchbank in Japan said:

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during the Reagan-Bush administration was quoted as stating he told then-Vice President Bush in the spring of 1986 that the United States was trading arms to Iran in exchange for the release of hostages. Mr. Bush has already said publicly that he was not "in the loop," and that he was excluded from key meetings involving details of the Iran operation.

The National Security aide, Edward Telcher, said that Mr. Bush was fully engaged in the discussions, asked pointed questions, and seemed to understand the implications of the arms trade.

Mr. Telcher was quoted as saying, and I quote, "I briefed him in detail in aspects of the Iran initiative on several occasions. He was extremely well-informed about foreign affairs, and extremely interested, yet I found a pattern of behavior that was a desire to be very well-informed but not to be involved on any issue that was controversial."

Mr. Speaker, Mr. Telcher does not work for Governor Clinton. He worked for the Reagan-Bush administration at the highest levels as a National Security aide. I am confident that the President does not want to allow this contradiction of his early statement to stand.

I urge the President to hold a press conference and to answer the fundamental questions about this matter. If he fails to do so, he can only expect that questions about this matter will continue to fester throughout the election.

COMMUNICATION FROM THE CLERK OF THE HOUSE

The SPEAKER pro tempore laid before the House the following communication from the Clerk of the House of Representatives:

WASHINGTON, DC,
September 28, 1992.

HON. THOMAS S. FOLEY
The Speaker, U.S. House of Representatives,
Washington, DC.

DEAR MR. SPEAKER: Pursuant to the permission granted in Clause 6 of Rule III of the Rules of the U.S. House of Representatives, I have the honor to transmit a sealed envelope received from the White House on Friday, September 25, 1992 at 7:05 p.m. and said to contain a message from the President whereby he transmits proposed legislation entitled the "Federal Pay Reduction Act of 1992" and a section-by-section analysis of the legislation.

With great respect, I am
Sincerely yours,
DONALD K. ANDERSON,
Clerk, House of Representatives.

□ 1210

FEDERAL PAY REDUCTION ACT OF 1992—MESSAGE FROM THE PRESIDENT OF THE UNITED STATES (H. R. NO. 102-397)

The SPEAKER pro tempore (Mr. HUBBARD) laid before the House the following message from the President of

the United States; which was read and, together with the accompanying papers without objection, referred to the Committee on Post Office and Civil Service, the Committee on House Administration, and the Committee on Armed Services, and ordered to be printed:

To the Congress of the United States:

I am pleased to transmit today for your immediate consideration and enactment the "Federal Pay Reduction Act of 1992." This legislation is part of my Agenda for American Renewal. The proposal is an important step toward "right-sizing" our Government—making it more fiscally responsible and reducing its size and structure. Also transmitted is a section-by-section analysis.

There are many in America who are out of work or uncertain of their prospects. The Federal deficit constrains the capacity to rejuvenate the economy. It is therefore appropriate that those who lead the Government make a personal contribution toward reducing the deficit and as a symbol of our understanding of the concerns of so many Americans. Accordingly, this proposal would reduce the salary of the President, the Vice President, and the Speaker of the House of Representatives by a full 10 percent. For other leaders in our Government—Members of Congress, senior officials paid more than \$75,000 in all three branches of the Government, and high-ranking military officers—the pay reductions would be 5 percent. An otherwise scheduled pay increase in January 1993 for these officials would not take place.

Under our Constitution, the President's salary can only be changed at the beginning of a new term of office. Pay reductions for all others affected will take place with the first pay period beginning on or after January 20, 1993. It is therefore essential that this legislation be enacted immediately, before the adjournment of the current Congress.

GEORGE BUSH.

The White House, September 25, 1992.

COMMUNICATION FROM CHAIRMAN OF COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION

The SPEAKER pro tempore laid before the House the following communication from the Chairman of the Committee on Public Works and Transportation; which was read and, without objection, referred to the Committee on Appropriations:

COMMITTEE ON PUBLIC WORKS AND TRANSPORTATION,
Washington, DC, September 24, 1992.

HON. THOMAS S. FOLEY
Speaker, House of Representatives, Washington, DC.
DEAR MR. SPEAKER: Pursuant to the provisions of the Public Buildings Act of 1958, I am transmitting herewith the resolutions (originals plus one copy) approved today by the Committee on Public Works and Transportation, as per the attached listing.

With all good wishes.
Sincerely,

ROBERT A. ROE,
Chairman.

There was no objection.

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Illinois (Mr. COLLINS) is recognized for 5 minutes.

(Mrs. COLLINS of Illinois addressed the House. Her remarks will appear hereafter in the Extensions of Remarks.)

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Illinois (Mr. ANNUNZIO) is recognized for 5 minutes.

Mr. ANNUNZIO addressed the House. His remarks will appear hereafter in the Extensions of Remarks.)

THE BNL CASE: HEAR NO EVIL, SPEAK NO EVIL

The SPEAKER pro tempore. Under a previous order of the House the gentleman from Texas (Mr. GONZALEZ) is recognized for 50 minutes.

Mr. GONZALEZ. Mr. Speaker, the BNL or the Banca Nazionale del Lavoro, was owned by the Government of Italy. This is something that even to this day and after years since 1973 that I initiated what turned out to be in 1978 the first statutory international banking regulatory law to convey to my colleagues and even the regulators that our banking system is quite different and operates differently, in a way it is good, in a way it is bad, from the Continental European, or for that matter any of the other industrialized nations, including Japan, in that the government has proprietorship in most every one of the banks that would be operating in the United States, or they have such tight control, or they have as is the heritage in Germany, for instance. You see, this is something that is not factored in our country, and that is why we are so vulnerable. We like to say banks are strictly private. In fact, they are so private that they are the most privileged group as a class in our country, for they in effect can give birth to credit or money with our fractional reserve system. Banks create money, in countries like Germany, for instance, but the bankers are independent, they are private, they are their own bosses, and the Federal Reserve Board is not a Federal agency even though it is created by the Congress. It is a creature of the commercial banking system, and therefore it is going to be amenable to it.

So in countries like Germany you have maybe four or five big banks. But in every one of those countries, whether it is France, England, Germany, Spain, you have a class system that is not in consonance with the American democratic, egalitarian tradition. And there is the rub. In Germany a banker, though he may be private, outside of

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the central bank, the Bundesbank now, during Hitler's period of time and before it was known as the Reichsbank, and we are the ones that changed that, we Americans occupying Germany in the occupation period. As a matter of fact, we even printed their currency during the occupation, and we changed the designation from the Reichsbank to the Bundesbank. And we printed the currency to exchange at the rate of 10 for 1 the old reich mark as differentiated from the deutsche mark now.

That is a lot of history, but if we do not read history, and I think we have not, and that is why we are paying the price, that is the bill for it is just beginning to be discerned by the American people who have not been informed by their leaders and are not now being informed by those that seek to have the power of the executive branch, neither one. But that is neither here nor there. These examples that I have been talking about, and which I have had the committee directing its attention to for almost 3 years, has to do with the most critical, the most imperative need we have, and that is to provide the framework of regulatory protection and supervision and oversight over these massive, hot, volatile sums which now amount to almost a trillion dollars over which no Federal agency, including the Federal Reserve Board, or much less any State banking commission such as in Georgia, has the least idea of what is going on.

There is an old law, the Gresham's law that said bad money chases out good money. We also have a legislative Gresham's law which I have seen in operation since the so-called reform of 1974 where bad legislation chases out good legislation. And it has been a tough fight these last 18 years, and it is very difficult for me personally because it is anguishing to see, and not foretell, but just discern, given the information that as a Member of Congress, and particularly assigned to the banking committee, the Banking, Finance and Urban Affairs Committee. That name was changed also in 1974. It used to be the Banking and Currency Committee. And that was the name of the committee since it was founded as a result of the 1863 Currency Act.

So this is history I would say which is important. But today you are called archaic, or old-fashioned, or it is not in keeping with the mores of these new generations, whether it is the me generation, which now is finding out what the limitations of that are and have been, or whether it is the blow hair generation. It seems to me that what I have seen is generations that know the cost of everything and the value of nothing.

□ 1220

Yes, it may be old-fashioned, but there are certain certainties and basics that are never old-fashioned, such as accountability, responsibility, truth, virtue.

Oh, virtue, what is virtue? Well, in public office, what should be virtue? In a democracy like ours, I would say just living up to the oath of office we take. And what is that oath of office? It is very simple, and it is prescribed for in the Constitution, and it is one that every officer, including armed services officers, as well as civilian officers, take and that is to defend and protect the U.S. Constitution against all its enemies both domestic as well as foreign.

In our case on top of that, to serve faithfully and well, but wait awhile. Is that not old-fashioned? Is not faithfulness old-fashioned? Is not relativism in moral judgments the thing?

Well, I am sorry to say that whatever I have brought out may now, and in fact some have written that I had foreseen, and, well, it was not so much that I had foreseen. I had spoken out, a warning, trying to get the attention, as I have been for particularly the last, well, since 1978 on what I think—in fact, I feel it in my soul—is a most heart-rending loss of our financial independence that faces us, and that is the value of the dollar, the fact that it can easily be replaced as the international reserve unit. I have gone into that before.

So these things such as a government-owned bank known as BNL, Italian Government-owned, but it is not the only one. We like to get exercised about how investments from, say, Japan have penetrated our economy and all. The truth is that the British have about 2½ times more acquisition of direct assets and indirect acquisition of assets than the Japanese, but nobody says anything about that or very few other than lately I have been getting a lot of calls back home from other airline employees saying, "Please, do what you can to protect the merger of British Airways with," I believe it is USAir. I am not sure. But anyway, it is too late.

The truth that the American people ought to know is that a true leader who has faith and confidence in the judgment of the American people as a whole would tell the truth, and that is that individually they cannot turn things around, at least not soon, that it is going to take sacrifice, struggle, means, if we are going to survive, and the outlook, and I am by nature an optimist, is not too good, not because the American people are not there.

By experience, if I were to render testimony in the 30 years and some 5 months to the day that I have had the great privilege of serving in a politically elective office as a representative, first, on the local legislative body, the city council, then the State senate, and here in the Congress of just about 31 years, those are great privileges. Nothing in any other country could match that that I know of, and it is just a matter of discharging the duties and being straightforward about it.

I have had about everything that could be thrown against a candidate in

this career, but the people came through. I cannot testify other than to the fact that the American people are there. People I see are hard-working people. They go to work in the morning with all of their fears. They come back home to their families. They pay their taxes. They go to church on Sunday. Those are the American people I know.

All I think they want is what is the truth, what are we facing; "do not be scared to tell us something that is distasteful or that will make us feel bad, because it is going to fall upon us to look for sacrifice. Tell us what it is going to take. But tell us truly." And that is all I have been doing almost to no avail.

We will do not have even minimal protection against these things that seem to be inexplicable as we relate them.

So that this bank owned by the Italian Government and originally, and, in fact, in the United States headquartered in New York since some, oh, I guess 20 years or so, has agency banks in various places, for instance, one in Atlanta, Miami, Chicago, and they had one or two in California, I think maybe one now, or maybe that one has ceased operations. These are agencies.

What does that mean? It means that they are not full-service banks; that is, they do not take accounts, thank goodness. Think about how many American citizens would have been gypped. Thank goodness BCCI did not get full banking services, or we would be facing what Great Britain, for the first time in 100 years, a failure of a major bank, which has not happened in Great Britain in 100 years, and many citizens or subjects in Great Britain gypped and trying to get their money back.

But Why? Well, because we do not see that these activities form these other countries reflect, first, very different social-class situations.

In Germany, the banker looks upon himself, yes, he may be a private banker, one of those four or five other than the Bundesbank, but he looks upon himself as a loyal ally of his government, that he is going to implement the policies of his government, not go against them, and that has not been true since the 1960's and the emergence of the multinational corporate activities including banks that, in effect, have really sold out America.

Time will tell. Time always will. So it was this Atlanta branch chartered by the Banking Commission of the State of Georgia, and that is another thing we must remember. These agencies are chartered in their respective States, not by the Federal Government level, whether it is the office of the Comptroller of the Currency or whether it is the Federal Reserve Board or what have you.

How was it, the question is originally asked when I saw a snippet in the Wall Street Journal saying that this Italian bank in Atlanta was issuing \$3 billion dollars' worth of credit, and that start-

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ed it. That was exactly 3 years ago, 4 years, well 3 years ago, 1989, this last month. So that how could that be that massive amount of credit? So I raised questions, and it took 1 year before I even had a halfway answer to the full context of the activities of agency banks.

One reason that this was possible is that the bank itself in this case had very poor management. Another reason is that under U.S. law at the time foreign agencies like the Atlanta office were not directly examined by the Federal Reserve Board, and if they are now, and I do not know to what extent, because we just amended the law under our pressure last November, and it took scandals to bring that about.

It was a minimal reform. We still have a hard job ahead of us.

So that under American law, 3 years ago, foreign agencies and the Atlanta office were not directly examined by the Federal Reserve. Instead, this job was done, or supposed to have been done by the State examiners, who gave it a low priority, because the agency did not take public deposits, and so presented no risk to the ordinary folks in Georgia.

The laxness of the internal management of BNL and the extremely poorest nature of regulatory supervision created the opportunity for mischief, as it always does and always will.

□ 1230

All that was needed was a good motive, temptation, which came in the form of a Reagan/Bush policy decision to support the Government of Iraq. In 1983, President Reagan removed Iraq from the list of terrorist nations, and that immediately opened the gates for new business, to help our balance-of-trade deficiency. So it was a Bush/Reagan policy decision to support the Government of Iraq, which was in the midst of a terrible war of attrition with Iran. This policy led to massive sales of food, to begin with, to Iraq, which eventually absorbed no less than 20 percent of the commodity Credit Corporation's loan guarantee program, 20 percent. Here is a country much smaller than Mexico, but getting, I forget how much, 400 percent or 500 percent more than, say, Mexico was in CCC. A great deal of this was financed by BNL-Atlanta. Now, what do we mean by Commodity Credit loan guarantees? Well, it means those guarantees are the taxpayers' liability, that is what that means, just like deposit insurance. And the banks and the S&L's making use of that guarantee to do that business, and even consider it sort of a capitalization structure goodie. Well, the same way here.

A great deal of this was financed by BNL-Atlanta, which was taking advantage of the opportunity presented by the bank's weak management, the non-existent U.S. supervision of its operations, and was motivated by opportunities to get rich quick.

The agency manager, Christopher Drogoul, may have had many motives. Drogoul apparently earned \$2.5 million for his troubles. In fact, his father was a dual French/Iraq national connected with Iraq's procurement program. But the chance to enrich himself surely was among them.

In addition to the food sales, Drogoul arranged for \$2 billion in credit to supply military useful technology to Iraq. This is where we come in from the Banking Committee. When we trip on the Commodity Credit Corporation, we immediately brought in the Agriculture Committee because they have jurisdiction. When the policy issue came about, how the Reagan/Bush policy was to buddy up and stimulate Saddam, now that is foreign affairs. So we brought in and had testimony before a committee from a foreign affairs subcommittee chairman.

Now, that is fine, that is set aside. We are not criticizing. We put the facts here. You, my colleagues, finding them in the RECORD and the public record being exactly that, open to the public—at least up until now. I am afraid there will be efforts in the near future to even close that if we let some have their way—and therefore you have available for the decision and judgment of, first, my peers in the House and Members of the other body and, above all, the constituents we represent.

So that the \$2 billion I speak of, aside from the commodity, the food, is commercial. These are bank loans.

Now, the banks operate this way, just like in the case of the hostage-taking in Iran in 1979, at the bottom of it all was banking: Chase Manhattan had an exposure of \$10 billion. In fact, that is still a continuing issue.

I want my colleagues to remember that on January 20, 1981, when Mr. Reagan was being sworn in, the Federal Reserve Board pressed a button and released instantaneously several billion dollars in London to Iran, and that is when they released our hostages, something that had not happened since the 9th century.

So that it is amazing how here we are about to close out not only a century but a millennium, one of the most bloody centuries in all human history, and we should close it on that note.

So here is all that Mr. Drogoul arranging for \$2 billion in commercial loans for the procurement, as a result of a very intricate, very well-thought-out procurement network by the Iraqi brains, and for the purchase of military technology all the way from chemical to such things as biological, nuclear—all of that was in there—and this thing, the initial financing which was like the Chase Manhattan in Iran, syndicated; that is, they get other banks to come in and take chunks of that.

Now, I put that on the record last year and in the committee's hearing record in 1990, the list of 10 banks that received and have received payments to make up for the default, and that came from the good old taxpayer, of

about \$1 billion; 10 big banks in the United States.

I listed them, they were working in what they call in banking circles this system.

So that this financing supported a vast, clandestine procurement program which was known by the United States and which decided to tolerate it.

Now, last year and even before then, and earlier this year, I was complimenting the likes of the CIA and the military defense intelligence because we have the documents showing that they were telling everybody from the Vice President, then Bush, who was later President, and the Secretary of State and everybody in the so-called National Advisory Council, that, "Hey, look, this has military implications. We don't favor it." They were canceled out.

So here I was praising the CIA for having done its job, all of a sudden they are jumping all over, trying to scare me, trying, what somebody said, to muzzle me, which is ridiculous. Nobody has ever muzzled me since I learned to talk, much less the CIA. But the reason was that they were then pressured by the Attorney General, who has been the one that has been the most incensed that I should tell my colleagues in the CONGRESSIONAL RECORD what is going on. But I have praised the Intelligence Agency; after all, that is what they were supposed to be doing. The facts show they did. But they were not heeded or they were overruled.

One question the case raises is whether the higher reaches of BNL knew what was happening in Atlanta.

□ 1240

Did the officialdom on Rome know? Well, in the meanwhile, the Roman Senate, and remember that this scandal has been written up about much more in the Roman press than in the United States, appointed an investigating committee, Senators.

I met with them. I met with the Chairman Carta and three of his colleagues, met them here in the United States.

When the Federal Reserve Board, under pressure from the Attorney General, would not give us the documents that we had subpoenaed, I got them from them. So we did not need the CIA for that matter, but in fact, what the CIA has said and what we have put in the record has been said somewhere else, whether in Europe or here or in some publication.

Now, did the higher-ups in Rome know? Why is this important?

Well, even now against all the activities of the Treasury Department and the Attorney General, I am trying to save the taxpayers the last near \$300 million that the BNL Bank in Rome is suing to collect on the basis that they were not aware that if the Government of the United States knew, it did not tell them, or that this was the oper-

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ation of what they called a rogue employee.

Now, we have placed in the Record as of the special order before last clear documentation showing that that was not the case, that the Minister in Italy had intervened with our American Ambassador, and he, in turn, pressured our folks here and they, in turn, let it be known, "Go slow in prosecuting in Atlanta." So this question is very important. That is why we keep asking it.

Another question, of course, is how much our Government knew about it. There is also the question of how hard the U.S. Government has tried to dig out all the facts.

The senior management of BNL had reason to suspect that something was wrong, or rotten, as they say, in Atlanta, long before U.S. authorities raided the place and blew the lid off the scandal.

Mr. Luigi Sardelli was appointed executive vice president and managing director of BNL's North American operations in July 1987—2 years before the BNL raid. Soon thereafter, he began auditing the bank's U.S. operations. In the Miami office, he found major problems and got permission to fire that office's managers. His auditors soon found major problems elsewhere: Los Angeles, Chicago, and Atlanta. He also recommended firing the Los Angeles office management, but never got consent for this action. In the case of Atlanta, Sardelli in August 1988 discovered a poorly collateralized loan to Entredo—which turns out to be one of Iraq's key procurement agents. But 3 months after discovering this transaction and reporting it back to headquarters in Rome, Sardelli's boss insisted on praising the Atlanta manager, Chris Drogoul. This was despite Sardelli's questions and criticisms. Then in late December 1988, Sardelli forwarded to Rome an audit report that was critical of BNL-Atlanta. But this report was in English, and it was ignored—not even translated into Italian—until July 10, less than a month before the U.S. officials raided the Atlanta office 7 months later. By that time Sardelli had retired. However, the fact is that the top manager of BNL, Mr. Giacomo Pedde, and the bank's chief auditor were aware of the problems in Atlanta at least as early as the fall of 1988, nearly a year before the scandal exploded.

Clearly, at least one senior manager of BNL knew that his bank's United States operations were badly run and reported this to his headquarters in Rome. However, Mr. Sardelli's requests to shake up management were sometimes ignored, his critical reports went unread, and his bosses made clear that Chris Drogoul had strong support at the top.

Giacomo Pedde, the director general of BNL in Rome resigned in the wake of the scandal and has since been indicted in Italian courts for his role in certain Iranian transactions. It was Mr. Pedde who in October 1988 told

Sardelli that it was premature to chastise his Atlanta manager, Drogoul.

At about the time Sardelli sent his critical audit report to Rome—the one that sat unread until the scandal exploded 7 months later—the management of the Udine branch of BNL got a request to finance a steel plant in Iraq. The manager of the branch wanted people at the top to get involved, because the account was an important one, Daniell. On January 26, Director General Pedde called the head of his financial division and told him the Daniell deal should get personal attention. Two days later, Daniell signed a deal for 160 million German marks—\$70 million—to provide a steel rolling mill to NASSR Enterprise, in Iraq. This loan was to be handled, not through the Udine branch that originated it, but through BNL-Atlanta.

It would seem then, that Atlanta had some special function. The Italian Senate believes the Daniell deal was handled through Atlanta to prevent other Italian companies with claims against Iraq from freezing the account. But it is clear that this odd deal was known to the top management of BNL, which moreover arranged to do it through Atlanta. This same top management was at the same moment in time ignoring its senior North American manager's warnings about irregularities in the Atlanta office. Indeed, by that time the Atlanta office was deep into its COC deals with Iraq. In April 1989, a few weeks after the Daniell deal was routed through his office, Drogoul was in Venezuela trying to collect on a \$25 million loan for a shipment of Cuban sugar that his office had financed for the Swiss subsidiary of Cargill Corporation.

And I will ask, let me stray here, our food bins, our grains, wheat, and the like, are at the mercy of foreign-owned, managed and headquarters international giants. Cargill may be considered American, but everything else, Dreyfus and the others, it is not unlike our banking situation, but we, in America, also do not have a screening board for grain sales, like Canada, for instance. If mainland China wants to buy wheat from Canada, the screening board has to go through it to balance its own domestic needs.

So what have all these speculators in the grain markets done? Why, our farmers are at the mercy of these internationally based organizations. They are not going to be thinking of American interests.

And what is the result? As of July 1, what they call the bonus, particularly wheat, that our food banks, school children's meals, nutrition centers for the elderly, have been cut out. Why? Because we no longer have a surplus of wheat and grain in our country.

This matches what is happening in our financial market.

Now, I raised my voice, that is, locally in San Antonio, because I brought out how as of July 1, one of our impoverished school districts is

going to have to ante up \$300,000 more for food because of this cutout by the Agriculture Department.

Now, my colleagues, you say these are not dire events that we should give absolute and uncompromising authority to?

Well, I have not seen it and neither are those aspiring to lead this country in the executive branch or even those supposedly administering it.

So I just wanted to bring that in, how astoundingly and depressingly in our food, it is entirely possible, it is not outside the realm of possibility, like in the possible loss of our financial independence, if we are going to have to start paying back all these monumental and monstrous debts in somebody else's currency for the first time in our history, that we will also have food shortages in this country.

O 1250

It is a dismal picture, and maybe it does not make me too popular with those hearing it, but it is the truth.

In short, while Rome ignored warning signs, and moreover assigned the Daniell loan to Atlanta, Drogoul was rapidly expanding his illicit operations with Iraq, and at the same time covering his tracks on the sordid deal to ship Cuban sugar to Venezuela.

The North American manager, Sardelli, refused a transfer back to Rome at about the time Drogoul was trying to cover his tracks in Venezuela. His superiors back in Rome were not the only ones who turned a deaf ear to his warnings—the U.S. Justice Department has never asked him what his bosses knew or didn't know about BNL-Atlanta's operations.

This is our Attorney General, who at first tried to scare me again, like the CIA, then tried to muscle me, and then handed down a decree regarding all of the departments. In fact the CIA included, the Treasury Department, forbidding them to provide any documentation to the committee. The same Attorney General that I think clearly has shown a dismal abdication of his sworn duties, and I would say is presiding over a corrupted department.

Sardelli retired in July 1988. That same month, on July 27, two informants appeared with their lawyers at the U.S. Attorney's office in Atlanta to tell their story. Two days later, bank regulators were called in. On August 2, the president of the Federal Reserve Bank of New York advised his counterpart at the Central Bank of Italy that an investigation was going on, and 3 days after that BNL-Atlanta was raided.

Drogoul claimed that he had been pressured by Rome to carry out the Daniell deal, and also claims that his superiors knew about the phony books he was keeping. The Italian Senate report confirms that BNL-Rome did indeed support the Daniell deal, and since the former director general, Mr. Pedde, ignored warnings and has legal problems of his own, it is at least arguable that he knew something about

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Drogoul's operation. In any event, it is curious indeed that Pedde and his associates picked an obscure office in Atlanta to handle the Danelli transaction to provide a steel facility for Iraq. Why not New York, especially since Sardelli had already reported problems in Atlanta to his superiors in Rome?

After the BNL raid, it did not take long for investigators to realize that the bank was financing militarily useful technology for Iraq. But according to a November 22 memo from Assistant U.S. Attorney Gale McKenzie:

"... the Iraqis were careful to purchase dual usage equipment which, of course, can be and probably was used on the Condor II project. Such purchases and funding are not in violation of U.S. law."

But of course at that time the United States wanted warm relations with Iraq.

The go signal was to all of these big firms in the United States to get export licenses and the like.

At that time Iraq hoped to get another billion dollars' worth of CCC-guaranteed food loans. The Department of Justice wanted to deny the loans to Iraq unless there was full cooperation, according to a letter from Justice to State dated February 9, 1990. That was a different attorney general at that time. The State Department wanted to keep the program going. If Iraq would promise minimal reforms, according to a memo dated a week earlier. In other words, Justice was not happy with State's anxious effort to keep Saddam Hussein from being upset by the spreading scandal. An alarmed prosecutor warned on March 9:

"... It is most important that neither USDA nor DOJ ever attempt to justify the issuance of an additional \$500 million in CCC guarantees as necessary to obtain Iraqi interviews for us... in no event should these potential Iraqi interviews be used as justification for issuance of an additional \$500 million in CCC guarantees."

The Agriculture Department also felt the heat and reported to the prosecutors:

USDA is receiving increased pressure with regard to the pending Iraqi request for an additional line of GSM-102 guarantees.

According to a memo from USDA on March 13, 1990.

But despite the objections of the Agriculture Department and the prosecutors, and in keeping with the President's desire to develop Saddam Hussein as a friend, the loans were approved notwithstanding all this scandal. Two years later a frustrated Gale McKenzie, the prosecutor of the BNL case wrote:

Information developed by (her office) was apparently discounted in reaching this policy decision (to pay off guarantees to loans owed partly by Iraq) just as it was when \$500 million in additional CCC guarantees for Iraq was approved after we disclosed the multibillion dollar scheme to defraud BNL for the benefit of Iraq.

The military side of the BNL case presented considerable problems. Earlier, I noted how the prosecutors had noted Iraq's skill in avoiding arms con-

trol law by procuring dual use technology. However, what they didn't know was that it was policy at the highest level to approve shipments even to known Iraqi nuclear facilities, even if it looked like equipment used for arms programs, as long as the equipment wasn't immediately useful for building bombs. It wasn't blown up at that point. In one such case, the equipment used for terminal ballistics studies was shipped to a known Iraqi nuclear facility, because it was considered too slow to be useful in bomb making. The policy was, if it doesn't explode, go ahead and ship it.

The prosecutors knew that something fishy could be going on. After Iraq invaded Kuwait, and during the United States buildup for the ground phase of the Gulf War, they prudently asked their bosses in Washington:

"Whether any facet of the U.S. intelligence community had any knowledge of illegal activities at BNL-Atlanta prior to August 4, 1989, and if so, what did they know and when did they know it."

This had worried them for some time. Months before, on July 3, the prosecutors wrote Main Justice:

"Two issues have arisen which appear to be stumbling blocks—what knowledge and role, if any, the Central Intelligence Agency had or played in BNL dealings with foreign governments in general and Iraq more specifically."

As you well know, experience has demonstrated that CIA's knowledge and participation can seriously impact a decision to prosecute.

This same memo also requested: Determination of the destination of a shipment of side-winder missiles.

□ 1300

I do not know what the answer to those inquiries was. But information that I do have makes it clear that our Government, at the highest levels, knew Iraq had clandestine procurement operations going forward and tolerated those activities right up until the start of the Gulf War. In fact, the prosecutors noted on March 9, 1990—again, at the time the State Department was pushing for \$500 million in new loans for Iraq:

Back in October 1989, the U.S. Attorney's office in San Diego advised that Customs was attempting to set up an undercover purchase of equipment in San Diego by Iraqis through the Iraqi owned companies Matrix Churchill and/or TDC without the required licenses. Customs in San Diego initially asked that we delay service of the Matrix Churchill subpoena... although allegations about Matrix Churchill relating to the BNL matter were then front page news around the world.

To explain this, let me remind you that in the fall of 1989, United States authorities were trying to crack the Iraqi effort to buy parts for nuclear triggers. Buying parts for nuclear triggers wasn't part of the administration's plan to appease Saddam Hussein. But the fact that he was trying didn't keep them from letting him buy all kinds of other technology, nor did it stop them from granting him \$500 mil-

lion in fresh food credits, taxpayer-guaranteed.

No wonder the investigators wanted to be sure they were not running afoul of CIA operations. It was clear to them that BNL was in the middle of a huge foreign policy decision, one that the administration wanted to pursue despite the criminality at BNL, despite the evidence that the food aid was being abused, and despite clear evidence that Iraq was using BNL to finance its arms program.

The prosecutors also knew that they hadn't gotten much help from Washington. On February 9, 1990, Gale McKenzie complained bitterly.

She is the Federal prosecutor in Atlanta, and here is the Justice Department up here, the Attorney General, saying "hey, go slow or don't go." First she complains bitterly about how her requests for help were being ignored by the bigwigs in Washington, and how a key official had not relayed to anyone the urgency of the situation. Of course, Washington had been hearing from Rome about the need to go slow, as I pointed out a week ago this Monday.

A July message from Rome reports that the Director General of BNL:

"... made a pitch for the USG to go slowly before naming indictments."

He also commented that the Assistant U.S. Attorney in Atlanta is a "mean and vindictive woman" who is being led by Israeli sources who have pointed her toward Turkey as the basis where all this began. He is positive that Mossad wanted to publicize the BNL involvement.

McKenzie was keenly aware of how sensitive things were with Rome. On May 9, she had heard from Washington a suggestion:

IC: stopping by Rome to meet with the Italian Magistrate to allay (sic) any concerns regarding the status of BNL in their investigation.

McKenzie was willing to do this, if her bosses wanted.

With all the intrigue and political pressure, there could not have been any doubt in anyone's mind about the sensitivity of the case. The prosecutors knew that BNL was in the middle not just of a huge financial scandal, but a major foreign policy situation as well—that policy being one of encouraging Saddam Hussein to know that he had a friend in George Bush.

When things got hot in the foreign policy area that summer of 1990, all of a sudden this fellow that had every reason to believe that he was pursuing rightfully, in his mind, the 100-year claim of Iraq to Kuwait found suddenly that they were going to war against him, but when it got hot, and in that summer of 1990, this principal investigator, prosecutor, Gale McKenzie, was off the case for 4 months.

The biggest financial scandal investigation in the history of her office had to do without her until after Iraq invaded Kuwait, and the policy of supporting Iraq was blown to bits. After the invasion, it was not just politically

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safe to go after the Iraqis, it was a political necessity, but here they took her off 4 months, the critical months.

Was that happenstance? Was that a mandated abetting? Of course not.

Even then, of course, the prosecutors had to be careful. They didn't want, as the record shows, to start prosecuting a case that might blow the cover off a CIA operation, and so they made inquiries to be sure of their ground. And there was also the frequent business of Washington being reminded by Rome that damage control was needed. Possibly that request for damage control is why Mr. Sardelli never was questioned very much about what he knew about Rome's inability to see or hear his warnings about the loose operation that BNL was running in Atlanta. Before the war, Rome apparently didn't want to know. It is possible that Washington didn't want to know either.

In fact, it is not possible, but I am sure they did not. In any event, the policy of support for Iraq continued, despite the scandal, up until Iraq rocked into Kuwait and set off the gulf war.

The administration did a great deal more than sell food to Iraq. The policy was to let military technology flow as freely as possible. A nuclear-triggered incident, and the later interceptive parts that had been made to the famed Iraqi supercannon, Old Bull, and he died in Belgium, he is Canadian born, who had worked for the CIA, incidentally, and for our Government in developing the long-range guns, and when he began to go on his own and sell armaments to the wrong people he was brought in by the very same CIA he had been working for, brought to court and convicted and sentenced for 4 months in a Federal jail. He came out a bitter man. He was the one that was developing the so-called Bull's big gun for Saddam Hussein, and was assassinated in Belgium.

The policy might not have included shipping bombs or munitions, but it certainly included shipping the technology to them. In return, the United States got special deals on the oil and the possibility that Iraq would be counterweight to Iran, but what we got instead was a war that could have been avoided, as I have said all along, even since August 1980.

Our soldiers, sailors, and airmen to this day are patrolling the borders around Iraq and the skies of that country.

We have a good-sized contingent, just like we still have, better than two-thirds of our troops in Panama, two-thirds of those we had at the height of the invasion. These are follies.

Let us ask a truthful question: What did Hitler do that was any worse than what we did in our name, incinerating several thousand blacks, 100 percent, in inflammable buildings constructed in 1908 in Panama for the Panama Canal workers, just burned?

Then we had mass graves, military, and by constricting the press and hold-

ing them under arrest in hotels, we prevented them, except one or two from Great Britain, from noting and reporting it.

I do not know what more war atrocities were committed by those we claim were Atillas and Huns and what not, and not to count the 200,000 plus Iraqis that we slaughtered, at least 100,000 so-called conscripts or soldiers while they were running, killed them mercilessly, buried them in sand with their hands sticking up.

We have a bunch of veterans now sick in the veterans hospitals of undetermined but very definitely neuroathetic sources because of what they witnessed in the Persian Gulf. Remember, that was done all in the name of us, the American people.

What about the 100,000 or so children, women, old, young, that we killed in the carpet bombing of Baghdad, destroying priceless artifacts, going back to the beginning of Western civilization?

□ 1310

You do not hear about that. Oh, you hear about our braggadocio generals, what great victories and how they are now millionaires as a result of this venture.

But I say yes, maybe we are the unipolar power of the world. I do not think so, but that is what everybody is saying. But we have got to remember that the Lord God cannot be tempted.

Is this our contribution to civilization at the near end of this century and millennium? Should we not be concerned and pondering and disturbed?

Well, so be it. We know that there was a lot more than just settling the food on the basis of guarantees. We know that it led to the free flow of technology of all kinds to Iraq. It might not have included the actual shipping of the assembled bomb, but everything that went into it was.

In return the United States got the special deals on oil, as I pointed out last week. And what we have ended up with is a war that is still in its initial stages.

If it is the impression among my colleagues that the gulf war is over, what I have said was just the beginning. Only the Lord knows where it will end. We went there, in my opinion, precipitously and willy-nilly into the origins of our Western civilization. It remains to be seen whether that will be perhaps the beginning of an end.

So what was this policy of appeasing Saddam Hussein based on? On conviction, principle? Oh, that is old fashioned. We do not talk about that.

No, it was a gamble. It was a crapshoot, and it failed. They lost the cast of the die. And at great cost still to be established, and with consequences that I say and repeat we cannot at this point foresee.

And at the center of it all is this little agency bank that could do anything. Did this happen just because

Chris Drogoul was a loose cannon or a rogue?

Mr. Speaker, I hear the rap, and my time is up.

The policy might not have included shipping bombs or munitions, but it certainly included shipping the technology to make them. In return, the United States got special deals on oil and the possibility that Iraq would be counterweight to Iran. But what we got instead, was a war that could have been avoided, and our soldiers, sailors, and airmen to this day are patrolling the borders around Iraq and the skies of that country. As for Saddam Hussein, the policy now is to regard him as an international criminal, though his use of the poison gas and pervasive abuses of human rights were earlier ignored. The policy of appeasing Saddam Hussein was rooted in no principle; it was a gamble that failed, at a great cost and with consequences that cannot be foreseen. At the center of it all is the little bank that could do anything, BNL-Atlanta. Did all this happen just because Chris Drogoul was a sick operator? It seems impossible, when you consider how much Washington knew about Iraq's secret operations, and how much the President wanted to provide provender and technology to Iraq, even after the scandal broke. It seems impossible that BNL's home management was ignorant of the scandal, in the face of warnings by its senior American manager sent. Perhaps Mr. Pedde didn't want to know, because it was, after all, his senior managers who used BNL-Atlanta to carry out the Iraqi steel loan despite clear signs of trouble. If Washington knew that Iraq was carrying out secret procurement operations—and there was exactly such knowledge—maybe they just didn't want to know what BNL-Atlanta was doing either. Washington's policy clearly was to hear no evil, see no evil.

NOVEMBER 22, 1988.

Subject: Response to your November 8, 1988, BNL Memo.

To: Robert L. Barr, Jr., United States Attorney.

From: Gale McKenzie, Assistant U.S. Attorney.

The BNL investigation has continued to proceed "full-speed ahead" to the point of most agents cancelling leave during Thanksgiving week. In fact we were in the office after hours yesterday obtaining detailed information regarding personal gain from Paul VonWedel's attorney and discussing a VonWedel plea.

I have attempted to keep you advised of daily activity in the BNL investigation by typing and distributing a daily log.

Since your November 3 memo we have received a determination from Washington that we do have a "Trading with the Enemy Act" violation and it will be included in the initial indictment.

To date we have received determinations on only half of the suspect transactions regarding possible violations of the "Arms Export Control Act". Those determinations have been negative. The products, such as the nuclear fuel compressor, have dual use capacity and are therefore not licensable. Although customs has been diligent in request-

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ing prompt determinations such review is time consuming and the collection of documents from manufacturers, freight forwarders, customs brokers, as well as exporters is sometimes slow due to referral from overseas sources and from a multitude of different companies. It may take six months to complete all determinations. However, we think there may be no prosecutions in this area since initial determinations show that the Iraqis were careful to purchase dual usage equipment which, of course, can be and probably was used on the Condor II project. Such purchases and funding are not in violation of US law.

The USDA OIG yesterday found a false statement submitted to USDA by Drogoul in connection with obtaining COO guarantees. Therefore, there will be at least one COO count in the initial indictment. As for the overall investigation, USDA does not feel that they can move any faster for the reasons stated in my memo of October 25. They have assigned the last full time people to the case—two Special Agents and one Auditor. Since there is a possibility that information developed during the USDA investigation can void COO guarantees and perhaps save US taxpayers over \$1 billion, that investigation must be complete and thorough.

I have been in real time with DOJ from the beginning regarding Foreign Corrupt Practices Act and Anti-Blacklist coordination. The crucial question which has not yet been answered is whether payments were made to individuals or to the "government." If so, I still don't foresee such violations being included in the initial indictment.

The October 21st memo discussed the fact that we were investigating whether or not Drogoul had operated as a foreign agent without registering as such. The Iraqi ties were with Drogoul, not VonWede. It still does not appear that we will have sufficient evidence in this area for inclusion in the initial indictment.

The FBI assure me that they continue to keep the Foreign Counter Intelligence desk in Washington promptly advised of all developments.

Enroute may be a corporate defendant in certain scheme to defraud BNL counts of the initial indictment. There is no evidence that any BNL employee or officer outside Atlanta had knowledge of any portion of the schemes under investigation sufficient to warrant criminal prosecution. Should export offenses be developed, non-BNL corporate and individual subjects would, of course, be identified and prosecuted.

I do not believe that any judge in the Northern District of Georgia would order pretrial detention for the five BNL Atlanta subjects due to the facts set forth in my October 31st memo.

DEPARTMENT OF AGRICULTURE,
OFFICE OF INTERNATIONAL AFFAIRS,
CRIMINAL DIVISION.

WASHINGTON, DC, February 8, 1992.
Re United States v. Christopher P. Drogoul, et al (N.D. GA.): Iraq Cooperation.

Mr. ANDREW BURKHA,
Assistant Legal Advisor, Law Enforcement and
Intelligence, Department of State, Washington,
DC.

DEAR MR. BURKHA: This office has read the proposed memorandum from Alan G. Raul, General Counsel, United States Department of Agriculture, to Abraham D. Sofer and Robert S. Ross, dated February 2, 1992, regarding efforts to seek the cooperation of the Government of Iraq in the Banca Nazionale del Lavoro matter.

We endorse the memorandum recommendation of a demarche to the Government of Iraq. We believe that the interests of

the United States Department of Justice would be better served if the issuance of additional export credits to Iraq is conditioned upon Iraq's complete cooperation with the United States Government in the ongoing Department of Justice investigation in Atlanta. The Office of the United States Attorney for the Northern District of Georgia is in accord. We urge that this matter be resolved as soon as possible.

Thank you for your consideration and attention to this matter.

Sincerely,

DREW G. ARENA,
Director.

OFFICE OF THE ATTORNEY GENERAL,

Washington, DC, February 6, 1992.
Memorandum for Mark M. Richard, Deputy
Assistant Attorney General, Criminal Division.

From: Robert S. Ross, III, Assistant to
the Attorney General.
Subject: Memorandum From Alan Raul, General
Counsel, USDA.

This is to bring you up-to-date on the attached. I talked to Raul yesterday and said that I saw nothing wrong with him sending the memorandum to Sofer and to me. I saw no problem with asking for Iraqi cooperation, but since you were out of town and Gail McKenzie was unavailable, I told him we might have further comments later.

Today I talked to Gail McKenzie. She said that the Iraqis had offered cooperation previously, but until recently she did not have enough information to be able to intelligently evaluate that cooperation. She now is in a position to talk to the Iraqis. She said that you and she were concerned that the cooperation from the Iraqis be provided directly to the Department of Justice, rather than to the USDA or to State.

I thereafter called Drew Arena and requested that he or Molly Warlow coordinate with USDA, State, and Gail McKenzie to assure that DOJ is the recipient of any cooperation resulting from the demarche to Iraq.

Finally, I again talked to Alan Raul and obtained his concurrence that any cooperation resulting from this demarche would be provided to the Department of Justice. He requested that USDA also have access to the information provided by the Iraqis so that the program could be evaluated in light of that information. I told him that this would be arranged.

FEBRUARY 2, 1992.

Attention: Robert S. Ross, Executive Assistant, Office of the Attorney General, Department of Justice.

Fax No: 633-3899.

From: Alan Charles Raul, General Counsel, USDA.

Fax No: 497-8668. Telephone No: 497-3858.

There are 4 pages to this document, including the cover sheet. Please call the above telephone number if any of these pages is not received or is illegible.

Thank you.

DEPARTMENT OF AGRICULTURE,

Washington, DC, February 2, 1992.
Memorandum for Abraham D. Sofer, Legal
Advisor, Department of State and Robert
S. Ross, Executive Assistant, Office of
the Attorney General, Department of
Justice.

From: Alan Charles Raul, General Counsel.

Subject: Iraq.

Attached for your suggestions is a possible memorandum regarding efforts to seek the cooperation of the Government of Iraq in connection with the ongoing investigations into the Banca Nazionale del Lavoro matter.

Please let me know what you think about this approach as soon as you can (preferably by Monday). I would like to finalize the memorandum after receiving your comments and advice.

Thanks.

FEBRUARY 2, 1992.

Memorandum for Legal Advisor, Department
of State and Executive Assistant, Office
of the Attorney General, Department of
Justice.

From: Alan Charles Raul, General Counsel.
Subject: Seeking Iraqi Cooperation Regarding
Certain Allegations.

As you know, allegations have been raised in connection with certain loans extended by the Atlanta Branch of the Banca Nazionale del Lavoro in connection with exports to Iraq. Some of those exports involved agricultural commodities purchased by instrumentalities of the Government of Iraq with the result that credit guarantees were available by the Department of Agriculture's Commodity Credit Corporation. We understand that these allegations are currently under investigation by the U.S. Attorney's office in Atlanta and by other agencies of the U.S. Government as well. The Department of Agriculture has been cooperating with the ongoing investigations and members of our Office of Inspector General are participating directly in the criminal investigation.

In addition to cooperating in the pending investigations, we believe we have a responsibility to monitor the situation carefully to ensure that our GSM program for Iraq is not compromised. This is consistent with the decision of the National Advisory Council on International Monetary and Financial Policies to approve the extension of additional export credit to Iraq by the Commodity Credit Corporation for fiscal year 1992, provided that additional program safeguards were put into place and the circumstances surrounding the Iraq program continued to be reviewed and evaluated. The Department of Agriculture has implemented additional safeguards and, as stated previously, has been assiduously monitoring the Iraq program.

We believe our due diligence in this case requires us to commit and coordinate closely with other relevant agencies. In particular, we believe that it could be useful for the appropriate U.S. Government officials to approach the Government of Iraq directly to seek their cooperation and any information that would assist us in determining whether there was any improper activity in Iraq related to the exports covered by the GSM guarantees. If any such improper activity surfaces as a result of the ongoing investigations, it will be essential for the U.S. Government to establish the role and responsibility of the Government of Iraq, or whether the questionable conduct is limited to isolated case of individual wrongdoing.

Accordingly, we would request that, consistent with the needs of the ongoing criminal investigation, the Department of State approach appropriate officials of the Government of Iraq to (a) request their cooperation with the United States and (b) obtain Iraq's assurance that it will provide the United States with any information it learns regarding any possible wrongdoing in connection with the GSM export credit guarantee program and that, should there be any evidence of wrongdoing by Iraqis, it will assure that any such individuals are, at a minimum, immediately and actively disassociated from the GSM Program in Iraq. The Government of Iraq should also be asked to repeat its prior assurance that it continues to stand by its financial obligations under the GSM export credit guarantee program.

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CONGRESSIONAL RECORD—HOUSE

September 20, 1992

If either of the Departments of State or Justice believes that a demarche to the Government of Iraq along the lines proposed in this memorandum is not appropriate at this time, please let us know. Under those circumstances, I would recommend that we develop an alternative course as soon as possible that would allow us to ascertain Iraq's position with regard to the various allegations and investigations. The Department of Agriculture is prepared to continue to work closely with you on this.

DEPARTMENT OF AGRICULTURE

Washington, DC, March 11, 1990.

To: Wendy Blank, Office of Int'l Affairs, U.S. Dept. of Justice, Telephone No. 726-3509, Fax No. 726-3538.

From: Kevin J. Broch, Office of General Counsel, USDA, Telephone No. 447-2946, Fax No. 447-2948 (202) 245-5091.

As per our conversation this a.m.

MARCH 12, 1990.

To: Ray Rastor, Gale McKeele, Office of the U.S. Attorney, N.D. Ga. and Drew Arnes, Wendy Blank, Department of Justice, International Affairs.

From: Kevin J. Broch, Office of General Counsel—FACB, USDA.

Attached is a copy of the draft proposal which was discussed yesterday afternoon in the meeting between USDA, DOJ and USA, Atlanta. I have selected Mike Young, the Deputy Legal Advisor at the State Department to tell him that this is in the works.

USDA is receiving increased pressure with regard to the pending Iraq request for an additional line of GSM-102 guarantees for this fiscal year. We need to resolve the approach to Iraq as soon as possible, and would like your comments today so that we can provide a draft to the State Department. If you need to reach me, my telephone is (202) 447-2946. My fax is FTS 245-5091, or (202) 245-5091.

Thanks for you help.

To: Michael Young, Deputy Legal Advisor, State Department.

From: Kevin J. Broch, Office of General Counsel—FACB, U.S. Department of Agriculture.

Re Iraq GSM-102 BNL Affair: Request for Meeting with Iraqi Officials.

This afternoon, USDA's Office of General Counsel met with representatives of the Department of Justice and the Office of the U.S. Attorney for the Northern District of Georgia to discuss our respective interests in interviewing Iraqi officials regarding perceived irregularities with the Iraq GSM-102 program. We had previously provided DOJ and USA-Atlanta with copies of questions that USDA would like to pose to the Iraqis, and had asked DOJ whether it opposed a USDA approach to Iraq on these subjects in light of the ongoing grand jury investigation into the BNL affair.

DOJ does not have any problems with the questions we have suggested. However, they propose that USDA and DOJ jointly approach Iraq and ask that it send a delegation to Washington as soon as possible to meet with officials of both agencies to discuss issues arising out of the BNL investigation. DOJ requested that USDA not send specific questions to Iraq prior to such a meeting. Moreover, DOJ has asked that the proposal to Iraq specifically request the attendance of seventeen individuals (current or past Iraqi officials involved in the BNL transaction). A list of these individuals, as provided by USA-Atlanta, is attached.

It was agreed that I would prepare a draft of the proposal, and that the draft would be provided to the State Department for its review and input on substance and approach.

Ray Rastor, the U.S. Attorney for Atlanta, and Gale McKeele are returning to Atlanta this afternoon. Drew Arnes, of DOJ's Office of International Affairs (FTS: 726-3518) is also involved. I will have an initial draft of a proposed communication prepared by tomorrow morning.

MARCH 12, 1990.

To: The Ambassador of the Republic of Iraq, Washington, D.C.

Recently, the Government of Iraq has requested the Commodity Credit Corporation (CCC) to extend for the remainder of fiscal year 1990 an additional \$500 million in export credit guarantees under CCC's GSM-102 program. This request has been taken under advisement by the CCC and the U.S. Department of Agriculture (USDA) and is currently being reviewed.

Since September, 1989, the Iraq GSM-102 program has been subject to substantial public inquiry due to various allegations of possible irregularities that have surfaced as a result of Banca Nazionale del Lavoro (BNL) investigation in Atlanta, Georgia. The Office of the United States Attorney for the Northern District of Georgia is currently investigating certain GSM transactions with Iraq financed by BNL. In addition, USDA/CCC has been conducting its own internal review of the Iraq GSM program.

The United States appreciates the fact that, on a number of occasions, the Government of Iraq has offered to provide its full cooperation on these matters when the U.S. government would be in a position to seek specific information. USDA/CCC now has a number of specific areas of inquiry with respect to transactions conducted under the Iraq GSM-102 program, and requests the assistance of the Government of Iraq in resolving uncertainties about the nature of those transactions. In addition, the Office of the United States Attorney for the Northern District of Georgia has also requested the assistance of the Government of Iraq with respect to issues that have surfaced as a result of the BNL investigation in Atlanta.

To address the concerns of these two agencies, the Government of the United States requests that the Government of Iraq assemble a team of persons knowledgeable about Iraq GSM-102 purchases during the period 1985-1990, and particularly about purchases made by Iraq that were financed through BNL—Atlanta. The United States requests that this team meet with officials of the U.S. Department of Agriculture and the Office of the U.S. Attorney in Washington, D.C. during the week of March 25, 1990, or as soon thereafter as can be conveniently arranged. The agencies have specifically requested the participation at those meetings of the seventeen individuals listed in Annex 1, which is attached to this document.

The United States proposes that those meetings consist of interviews by the Office of the United States Attorney of the listed individuals, and separate meetings between the Iraqi team, and a team of officials from USDA/CCC where the U.S. side will identify specific past issues and discuss the need for procedural reforms and changes necessary for any future Iraq GSM program. Thank you in advance for the cooperation from the Government of Iraq in resolving these important questions.

MARCH 9, 1990.

Subject: Status of request for Iraqi interviews.

To: Rimasas A. Rakstale, United States Attorney, Northern District of Georgia.

From: Gale McKeele, Assistant U.S. Attorney.

During the course of our BNL-Atlanta investigation information has been developed

that Iraqi government officials and others connected with them have required "after sale services" from U.S. exporters on CCC guaranteed commodities, as well as "consulting fees" from U.S. exporters of non-CCC guaranteed products. Such conduct could constitute violations of 18 U.S.C. 1194(a) if the "port value" of a CCC guaranteed commodity were inflated to cover such payments. The Foreign Corrupt Practices Act could also be violated if an Iraqi government official were retaining a portion of either the "after sale services" or "consultant fees" for personal use. In addition, certain Iraqis had knowledge of and participated in the scheme to defraud BNL.

We therefore requested through attached letters of February 13 and March 1 that DOJ arrange through State or otherwise Atlanta or Washington interviews of specified Iraqis who are thought to have personal knowledge of "after sale services," "consultant fees," and the scheme to defraud BNL.

The U.S. Department of Agriculture (USDA) and DOJ appear to be advocating a litigation approach to the investigation. The latest approval of an additional \$500 million in CCC guarantees for Iraq. While our office does not control such policy decisions, it is most important that neither USDA nor DOJ ever attempt to justify the issuance of the additional \$500 million in CCC guarantees as necessary to obtain Iraqi interviews for us. This office would prefer foregoing Iraqi interviews altogether rather than "paying \$500 million" for the opportunity to question individuals who, in all probability, will not "confess all". On the other hand, requests for such interviews is a natural progression of our investigation. Our office has received "messages" from the Iraqi Ambassador to the U.S. and others in the Iraqi government through various third parties that Iraq is most anxious to cooperate with the Atlanta investigation. But in no event should these potential Iraqi interviews be used as justification for issuance of an additional \$500 million in CCC guarantees.

A second problem regarding Iraqi interviews involves the USDA Office of General Counsel's desire to submit questions which impact our criminal investigation to the Iraqi government in general prior to our requested interviews of specified Iraqi individuals. See attached March 1 list of USDA Office of General Counsel questions. Since the proposed questions impact our criminal investigation, the USDA Office of Inspector General agrees with this office that the Iraqis should first be requested to produce for interview in Washington or Atlanta by a date certain the specific individuals named on our list of February 13 and March 1. Should the Iraqis decline or simply fail to give us an answer on a timely basis, we have no objection whatsoever to any USDA General Counsel questions. If the Iraqis do agree to personal interviews, advance notice of specifics as contained in the current USDA proposed questions could be counter productive to those interviews.

Therefore, it is suggested that Iraq's position in regard to such interviews be immediately determined. In the meantime, we have no objection to USDA Office of General Counsel proposing to the Iraqi government general policy questions 1 through 15 contained at pages 2 and 3 of the USDA March 1 submission. However, the following additions to certain of these questions may prove helpful.

Question 6 add: Did Iraq ever reveal bid prices to a competitor company or individual prior to bid closing?

Question 8 change to read: Did Iraq request or receive any additional compensation in the form of "after sales services" or in any other form from any U.S. agricultural as-

September 28, 1992

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porter whose sales were made under any CCC guaranteed program? If so, please provide dates, amounts of compensation, nature of compensation, Iraqis having knowledge of such transactions, and individuals and agencies receiving compensation.

Question 9 add: underlined phrase . . . in requesting and receiving without request "after sales service" . . .

This position is conveyed to Mark Richard by attached March 5 letter which I suggest we hand deliver on Monday in light of his concerns expressed to you on March 5 about communication security. This case.

Finally, in response to Mark's comments on March 5 concerning "new developments", "broader problems with the same government," and "Customs problems in San Diego," the following insight is provided.

Back in October 1988, the U.S. Attorney's Office in San Diego advised that Customs was attempting to set up an undercover purchase of equipment in San Diego by Iraqis through the Iraqi owned companies Matrix Churchill and/or TDO without the required licenses. Customs in San Diego initially asked that we delay service of Matrix Churchill subpoenas in the BNL-Atlanta investigation in light of allegations about Matrix Churchill relating to the BNL matter were then front-page news around the world. We also had to use secured phones for a period. However, these restrictions were lifted by Customs Headquarters in Washington when Matrix Churchill attorneys appeared as and offered to accept service of "their grand jury subpoena." Matrix had been expecting a subpoena since so many other BNL customers had received one. Matrix was even wondering and speculating about the delay. Since that time Customs Headquarters has consistently advised us to proceed normally with our investigation and has this week approved an additional Matrix Churchill grand jury for document production regarding "consultant fees." John Lowe and Dave Ertin of the Strategic Investigations Division have been assigned to coordinate these matters at Customs Headquarters. Customs is also in touch with Wals Selyarsky and Joe Tate of DOJ Internal Security. To our knowledge, the Iraqis have not yet arrived in San Diego to purchase the unauthorized material.

Attached is a short summary of preliminary information developed regarding payments to Iraqis for government and/or personal benefit. Also attached is a memorandum of interview of F. Paul Dickerson, USDA Foreign Agricultural Service, regarding 1988 and 1989 escalations regarding "after sale services" between USDA and the Iraqi CCC negotiating delegations.

The Iraqi issues discussed in this memorandum are the ones of which I am aware. The only other matter which may arise is the timing of Iraqi interviews, if requested. It is important to proceed with a Tessler proffer in Istanbul during the week of March 28 because this is the one period in the foreseeable future when both defense counsel are available. Tessler is still interested. I am between trials, and IRS needs the information to supplement their Dropout report by the time it reaches DOJ Tax. Therefore, if a request is to be made regarding Iraqi interviews, it should be made promptly with an initial determination of whether Iraq is willing to produce individuals in Washington or even Atlanta or whether such interviews are feasible at all. A delay in the Istanbul trip without "something concrete" would be counterproductive.

U.S. DEPARTMENT OF JUSTICE, U.S. ATTORNEY, NORTHERN DISTRICT OF GEORGIA.

Atlanta, GA, December 16, 1990.
Re: BNL-Atlanta investigation.

LARRY UNDERSON,
Chief, Fraud Section, Department of Justice,
Washington, DC.

DEAR LARRY: At the suggestion of Peter Clark and Scott Taylor of your office, we are providing the following list of assistance requested from the Department of Justice:

1. A written response by the intelligence community to our previous inquiries concerning:

(a) Whether the unauthorized BNL-Atlanta funding was orchestrated, approved or directed by any facet of the U.S. intelligence or counter intelligence community prior to August 4, 1988;

(b) Whether any facet of the U.S. intelligence community had any knowledge of illegal activities at BNL-Atlanta prior to August 4, 1988, and if so, what did they know and when did they know it;

(c) Any information about and/or photographs of the individuals named in our prior inquiries; and

(d) Confirmation, or lack thereof, of Taha's alleged death in London between June 4, and 6, 1988, as reported in the Financial Times. Taha received his heart transplant at Royal Free Hospital in Hampstead, England.

2. Determination of how to best arrange the funding and authority needed to use Acorn Group for case graphics:

3. Coordination with OIA to arrange:
(a) Our review of TDO and Matrix Churchill, Ltd. (MCL) and TDO documents seized by British authorities;

(b) Meetings with British and German investigators who have information regarding testicles of the Iraqi procurement network funded by BNL-Atlanta; and

(c) Meeting with Italian magistrates well in advance of any magistrate interviews of our witnesses.

4. Coordination with United States Attorney's Office and Customs in Cleveland to assist in our obtaining Matrix Churchill Corp. (MCC) documents subpoenaed by the Northern District of Georgia grand jury prior to the Cleveland search warrant. Since there are grave concerns about the validity of that warrant and affidavit in support, it is most

important that Customs, who are in custody of the seized MCC documents, copy the records listed in our grand jury subpoena and release the copies to the Matrix custodian for production before the Atlanta grand jury.

5. Confirmation that Bob Meffler, or whoever is making final decisions, does wish us to proceed immediately with Leigh New, Amadeo DeCarolis, Thomas Fiebelkers and Theresa Bardeen plus negotiations on the terms generally suggested by and discussed with Messrs. Clark and Taylor.

Thank you for allowing Peter Clark and Scott Taylor of your office to spend three long days with us this week. Their input was certainly appreciated. I hope we have addressed many of your concerns in the time spent with Messrs. Clark and Taylor. In addition, we have begun work on their list of DOJ suggestions and requests which will be forwarded as completed.

Sincerely,
ROBERTS A. RUFFIELD,
First Assistant U.S. Attorney.

GAIL MCKENNEY,
Assistant U.S. Attorney.

ROUTING AND TRANSMITTAL SLIP

JULY 12, 1988.

To: Paul Maloney.

I recommend assigning someone from Fred to work with Atlanta on exploring the "CIA" question. I wouldn't limit the area to CIA—counter looking at State's files as well.

As for the missing person, what can we do to assist Atlanta?

MARK M. RICHARD,
Deputy Assistant Attorney General,
Criminal Division.

U.S. DEPARTMENT OF JUSTICE, U.S. ATTORNEY, NORTHERN DISTRICT OF GEORGIA.

Atlanta, GA, July 3, 1988.

Re: Banco Nacional del Lavoro (BNL) investigation.

Mr. MARK M. RICHARD,
Deputy Assistant Attorney General, Department of Justice, Washington, DC.

DEAR MR. RICHARD: I would like to take this opportunity to advise you of the current status of the BNL investigation.

As you know, when we last met on the case in May, we reached an understanding that this office will proceed to prepare for your personal and approval a draft indictment and prosecution memorandum in support of Phase One of the investigation. This initial indictment will involve former officers and employees of the Atlanta office of BNL as defendants, its alien customers, and will allege violations of 18 U.S.C. §§ 371, 688, 1341, 1343 and 2384, violations of 50 U.S.C. Appendix §§ 1 and 16, and allegations of 28 U.S.C. §§ 722 and 722(h). Preparation of the initial draft indictment is proceeding and will be transmitted to you soon. We will be happy to meet with you here or in Washington to discuss the proposed indictment.

Our investigation is currently focused on five issues the Phase One indictment and gathering information to frame the Phase Two indictment. You will recall that Phase Two involves violations of the Foreign Corrupt Practices Act, Hobbs Act, and false and fraudulent statements relating to U.S. Department of Agriculture and CCC loan guarantees. The subjects of Phase Two include American exporters doing business with Iraqis employed by the Iraqi Ministry of Industry and Military Manufacturing, and certain Iraqi nationals.

More specifically, in relation to Phase One and Two, investigators are engaged in the following:

1. Letters Registry are being prepared for Luxembourg and Swiss financial institutions to obtain documents reflecting payments made to subject Dropout from CCC guaranteed Entrado/Daka corn shipments to Iraq.

2. Arrangements are being made to interview Wali Dajani, an associate of Dropout, whom allegedly had previously stated BNL "knew" of irregularities in Atlanta.

3. A determination of Ekin's role in after service payments to Iraq.

4. A determination of the destination of a shipment of silver/silver minifine.

5. Whether payments were made to Iraq officials for bid information for CCC guaranteed loans by two American companies, Danialer de Puerto Rico and AID of Atlanta.

Two issues have arisen which appear to be potential stumbling blocks to the investigation—what knowledge and role, if any, the Central Intelligence Agency had or played in BNL dealings with foreign governments in general and Iraq more specifically; and, whether or not Sadik H. Taha, the Director General for Agreements and Loans, Central Bank of Iraq, and a key potential defendant, is alive.

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I repeat our emphasis to you the importance of the answers to these questions to our overall investigation. As you well know, experience has demonstrated that CIA knowledge and participation can seriously impact a decision to prosecute. In addition, if Mr. Taba is dead, as has been reported by the European press, it would cause serious embarrassment to our government to prosecute him. I am respectfully requesting that you and your good office take necessary steps to obtain answers to these questions. We will be delighted to assist you in any way, to include going to Langley to assist in any document review or analysis.

In the meantime I will keep you advised of our investigation. Thank you for your assistance. I look forward to seeing you soon.

Sincerely,

JOS D. WHITLEY,

JOSEPH A. RUTSELL,
First Assistant and
Chief, Criminal Division.

FEBRUARY 9, 1960.

Subject: Entrade Plea Cooperation (BML Investigation).

To: Rumanas Raketele, United States Attorney.

From: Gale McKenzie, Assistant U.S. Attorney.

As I advised you earlier this morning, Peter Clark has made no presentation to Mark Richard regarding his 1/31/60 meeting with us on the Entrade/Tessler matter. Instead, Clark left Washington to attend an SEC seminar in Denver, Colorado.

Prior to Clark leaving Atlanta on the evening of 1/31/60, he was reminded that Mark Richard on 1/27/60 had assured us of an answer regarding DOJ approval of the proposed Entrade plea within a week. Clark was also advised of the reasons which required: (1) BML indictment by the end of February, 1960; and (2) receipt of Tessler cooperation through an Entrade plea agreement prior to indictment. Clark instructed me not to call defense counsel regarding Clark's new proposals until he briefed Richard and notified me of Richard's decision by 2/2/60.

When no such DOJ approval was forthcoming on 2/2/60, I called Clark on 2/3/60 at which time he claimed to be undergoing surgery that afternoon but promised to call me on 2/6/60. I again reiterated the urgent need for a prompt DOJ decision. After receiving no such call from Clark on 2/6/60, I called his office and was told he was on travel status through 2/18/60 with no number or location available.

After checking with you, I called Mark Richard's office and was told he was not available until 2/18/60. Although I left a request for Richard to return my call, he has not done so.

Finally, after continuing to leave repeated messages for Clark and to make inquiries at the DOJ Fraud Section regarding Clark's whereabouts, Fraud Section Chief Larry Urgenson called me today. Urgenson said that Richard had received no input from Clark or DOJ Fraud because Clark had not briefed Urgenson to the extent necessary for such input, nor had he mentioned any urgency relating to the Entrade decision. Urgenson said he would look into the matter over the weekend, but could not even promise me a decision by Monday, 2/12/60, since Clark was attending the Denver seminar.

I again stressed to Urgenson that a Monday decision was imperative because, just as we had told Clark, 2/2/60 is the last date available for possible travel and prior thereto: (1) defense counsel review DOJ changes, convey the same to clients in Turkey, await individual and Board of Directors decisions, and redraft defense government

letter of understanding; (2) the government must again obtain host country clearance through the Department of State which takes 10 working days; and (3) very complex travel arrangements must be made by the AUSA, three agents and two defense counsel.

MAY 9, 1960

Subject: Tentative travel plans for Tessler interview in Istanbul.

To: Larry Urgenson, Chief Fraud Section, Criminal Division, Department of Justice.

From: Gale McKenzie, Assistant U.S. Attorney, Northern District of Georgia.

The following are tentative travel plans based upon representations of Tessler/Entrade attorneys that there is over a 50% or better chance for obtaining as contemplated by our current proposal.

AmFlag Carrier:

May 18, 1960: Leave Atlanta, Georgia 5:10 p.m. on Delta-6190, arrive Frankfurt 7:00 a.m.-6190, leave Frankfurt 11:10 a.m. on TWA-6190, arrive Istanbul 3:10 p.m.-6190.

May 27, 1960: Return. Leave Istanbul 7:10 a.m. on TWA-67190, arrive Frankfurt 9:15 a.m.-67190, leave Frankfurt 11:40 a.m. on Delta-67190, arrive Atlanta 3:20 p.m.-67190.

Defense counsel will be meeting with Tessler on Thursday, Friday and Saturday of this week. We will have a positive answer on Monday, May 16. However, plans must be considered in advance. I have also forwarded our tentative travel plans to the State Department so that Turkish officials can be appropriately advised. Our country clearance was granted in January, but a travel itinerary must be furnished now.

I will call you on Monday to confirm final word from Tessler and to obtain your travel schedule, if necessary.

During our most recent Washington meeting, suggestion was made for stopping by Rome to meet with the Italian Magistrate to allay any concerns regarding the status of BML in their investigation. That meeting can be arranged for Monday, May 23 as a part of our return flight at no additional cost if DOJ wishes us to make this contact. Since we have received no response from Dick Martin pursuant to the OIA inquiry, such a personal visit might be appropriate.

Please advise if such a visit should be arranged with the Italian Magistrate.

The SPEAKER pro tempore (Mr. HUBBARD). Under a previous order of the House, the gentleman from Indiana (Mr. BURTON) is recognized for 80 minutes.

[Mr. BURTON of Indiana addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from New York (Mr. OWENS) is recognized for 80 minutes.

[Mr. OWENS of New York addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Georgia (Mr. O'DONICH) is recognized for 80 minutes.

[Mr. O'DONICH addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Wisconsin (Mr. OBEY) is recognized for 80 minutes.

[Mr. OBEY addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from California (Mr. DREIER) is recognized for 80 minutes.

[Mr. DREIER of California addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Pennsylvania (Mr. WALKER) is recognized for 80 minutes.

[Mr. WALKER addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

CONFERENCE REPORT ON H.R. 5518

Mr. LEHMAN of Florida submitted the following conference report and statement on the bill (H.R. 5518) making appropriations for the Department of Transportation and related agencies for the fiscal year ending September 30, 1960, and for other purposes:

CONFERENCE REPORT (H. REP. 103-104)

The Committee of Conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 5518) making appropriations for the Department of Transportation and related agencies for the fiscal year ending September 30, 1960, and for other purposes, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendments numbered 1, 8, 7, 10, 16, 17, 19, 21, 22, 27, 28, 39, 40, 54, 56, 60, 77, 78, 81, 83, 91, 95, 97, 98, 101, 102, 109, 110, 111, 112, 113, 114, 115, 116, 120, 123, 125, 126, 152, 154, 156, 176, 178, 179, 187, 189, 190, 203, 211, 212, and 218.

That the House recede from its disagreement to the amendments of the Senate numbered 2, 3, 5, 6, 9, 11, 12, 14, 15, 16, 24, 25, 46, 50, 51, 52, 60, 61, 77, 84, 87, 103, 104, 105, 106, 116, 118, 128, 127, 129, 132, 142, 147, 156, 163, 166, 171, 179, 180, 181, 186, 192, and 193, and agree to the same.

Amendment numbered 4:

That the House recede from its disagreement to the amendment of the Senate numbered 4, and agree to the same with an amendment, as follows:

In lieu of the sum proposed by said amendment insert: \$7,425,000, and the Senate agree to the same.

Amendment numbered 22:

That the House recede from its disagreement to the amendment of the Senate numbered 22, and agree to the same with an amendment, as follows:

In lieu of the sum proposed by said amendment insert: \$17,250,000, and the Senate agree to the same.

Amendment numbered 28:

**Documents Related to Congressional Efforts to Impose Sanctions on
Iraq Prior to the Invasion of Kuwait**

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United States Department of State

Washington, D.C. 20520

NEA TELEFAX COVER SHEET

DATE: 1/2/90

THIS PAGE PLUS 2 PAGE(S) TO FOLLOW

TO:

NAME: SANDRA CHARLES

OFFICE NSC

FAX NO: 395-5221 - 456-7705

FROM:

NAME: _____

OFFICE: NEA/

PHONE NO: 647-6111

MESSAGE IF ANY: ~~COMMENT~~ UPDATED AS OF
1/2/90. SUPERCEDES EARLIER
VERSION.

NEA BUREAU TELEFAX NUMBER: (202) 647-7720

**MEMORANDUM OF JUSTIFICATION
FOR A WAIVER OF EXPORT-IMPORT BANK RESTRICTIONS
WITH RESPECT TO IRAQ**

Section 512 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 (P.L. 101-167), provides that the prohibition on obligations and expenditures contained in that section, which applies to nine specified countries (including Iraq), shall include direct loans, credits, insurance and guarantees of the Export-Import Bank (Exim) or its agents. The legislation provides, however, that the prohibition shall not apply to Exim or its agents if "in the judgment of the President its application is not in the national interest of the United States" and this is so reported to Congress. The legislative history makes clear that the Presidential waiver authority was added to section 512 during Senate floor debate on P.L. 101-167 with Iraq specifically in mind.

Since 1985, Exim has made short-term credit insurance available to Iraq on a rotating basis with a \$200 million ceiling. Due to arrearages in Iraqi servicing of some loans, Exim temporarily suspended this facility, as required by law. As soon as Iraq pays these arrearages, it again would be eligible for Exim coverage. However, without a waiver of the Section 512 prohibition, Exim will have to notify exporters and banks that the credit insurance facility for Iraq is now prohibited. This abrupt change of policy would have a damaging effect on our bilateral relationship.

Iraq is a major military power in the Persian Gulf and increasingly influential in the Arab World. It is also an important supplier of petroleum for the U.S. market. It is in the national interest of the United States to maintain existing economic and political incentives, such as the short-term Exim credit insurance, to encourage Iraq to moderate its behavior and increase our ability to deal effectively with Iraq on issues of importance to the United States. We also wish to pursue and seek to facilitate opportunities for U.S. firms to participate in the post-war reconstruction of the Iraqi economy. Although we continue to have problems in a number of areas with Iraq, including human rights, there have been no recent events that would justify the total withdrawal of Exim coverage at this time.

Presidential Determination
No. _____

MEMORANDUM FOR THE SECRETARY OF STATE

SUBJECT: Application of Export-Import Bank restrictions
in connection with Iraq

By virtue of the authority vested in me by Section 512 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 (P.L. 101-167), I hereby determine that, with respect to Iraq, application of the prohibition contained in that section to the Export-Import Bank or its agents is not in the national interest of the United States.

You are directed to report this determination to the Congress immediately and to publish it in the Federal Register.

MEMORANDUM OF JUSTIFICATION
FOR WAIVER OF EXPORT-IMPORT BANK RESTRICTIONS
WITH RESPECT TO IRAQ

Section 512 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990 (P.L. 101-167), provides that the prohibition on obligations and expenditures contained in that section, which applies to nine specified countries (including Iraq), shall include direct loans, credits, insurance and guarantees of the Export-Import Bank (Exim) or its agents. The legislation provides, however, that the prohibition shall not apply to Exim or its agents if "in the judgment of the President its application is not in the national interest of the United States" and this determination is reported to Congress. The legislative history makes clear that the Presidential waiver authority was added to section 512 during Senate floor debate on P.L. 101-167 with Iraq specifically in mind.

Since 1985, Exim has made short-term credit insurance available to Iraq on a rotating basis with a \$200 million ceiling. Due to arrearages in Iraqi servicing of some loans, Exim temporarily suspended this facility. As soon as Iraq pays these arrearages, it again would be eligible for Exim coverage. However, without a waiver of section 512, the credit insurance facility for Iraq is now prohibited. The continuation of this prohibition would have a damaging effect on our bilateral relationship, and would not be in the national interest of the United States.

Iraq is a major military power in the Persian Gulf and increasingly influential in the Arab World. It is also an important supplier of petroleum for the U.S. market. It is in the national interest of the United States to maintain existing economic and political incentives, such as the short-term Exim credit insurance, to encourage Iraq to moderate its behavior and increase our ability to deal effectively with Iraq on issues of importance to the United States. We also wish to pursue and seek to facilitate opportunities for U.S. firms to participate in the post-war reconstruction of the Iraqi economy. Although we continue to have problems in a number of areas with Iraq, including human rights, there have been no recent events that would justify a total prohibition of Exim financing at this time.

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Federal Register
Vol. 54, No. 28
Friday, February 9, 1989

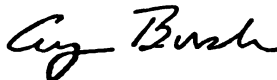
Presidential Documents

Title 3—**Presidential Determination No. 98-7 of January 17, 1989****The President****Application of Export-Import Bank Restrictions in Connection With Iraq****Memorandum for the Secretary of State**

By virtue of the authority vested in me by Section 512 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1980 (P.L. 101-167), I hereby determine that, with respect to Iraq, application of the prohibition contained in that section to the Export-Import Bank or its agents is not in the national interest of the United States.

You are directed to report this Determination to the Congress and to have it published in the Federal Register.

THE WHITE HOUSE,
Washington, January 17, 1989.



(FR Doc. 89-3367
Filed 2-9-89; 11:23 am)
Billing code 3195-01-M

INOUE-KASTEN SANCTIONS ON IRAQ

- This legislation combines every sanction we've ever imposed on anyone. It is so broad we're only beginning to assess the implications.
- The act raises numerous questions, including:
 - o How would the sudden embargo of 8% of our oil imports affect U.S. supplies?
 - o Would the impact be exacerbated by further retaliation from other Arab OPEC states?
 - o How will this action against an influential Arab country -- just short of a declaration of war -- impact the peace process?
 - o The Soviets have been a fading presence in the Middle East -- will this give them a chance to jump in again?
 - o Thanks to our pressure, Iraqi Jews -- and others with relatives in the U.S. -- are now free to leave the country. Will this be affected?
 - o Will U.S. farm prices be affected? (Iraq, for instance, buys nearly a quarter of our rice exports.)
- We cannot pretend to be able to answer all of these questions yet, but they need to be taken into account.
- During the Gulf War, there was a broad consensus as to the importance of Persian Gulf to ourselves and our allies. Now, with little thought to the consequences, we would purposely create a situation in which the U.S. would have no relations with the area's two most powerful countries.
 - o We would be straining our relations with our friends in the region at the same time.
- The anti-terrorism statutes should not be used to make political points. Iraq's behavior does not warrant its inclusion on the list at this time.
- This bill would not even allow Iraqi-Americans, or Iraqi citizens resident in the U.S., to visit their relatives in Iraq.
- We would get no help from our allies with this -- indeed, they would scramble for our share of the market.
- The question is not whether we like or dislike Iraq: it is simply too important and too powerful a country to cut ourselves off in this way.

Source: State Department

PROPOSED SUPPLEMENTAL BILL AND REPORT-LANGUAGE

Amendment offered by Senator Daniel K. Inouye and Senator Robert Kasten.

At the end of the bill insert the following new title:

TITLE IV -- IRAQ SANCTIONS

Section 1. This title may be referred to as the "Iraq Sanctions Act of 1990".

General Prohibition On Support For Iraq

Sec. 101. (a) Notwithstanding any other provision of law, no funds, credits, guarantees or insurance appropriated or otherwise made available by any Act for Fiscal Year 1990 or thereafter, shall be used to support or administer any financial or commercial operation, of any United States Government department, agency, entity or persons subject to United States jurisdiction, involving the Government of Iraq, its agencies, institutions or persons working on its behalf, including the processing of any "validated" or "general" export licenses or any documentation related to the importation of Iraqi-origin products into the United States or its territories, or possessions thereof.

(b) The Department of Commerce is instructed to include Iraq within Country Group 5 within supplement Number 1 to section 770 of the Export Administration Regulations ("EAR").

(c) This section shall become effective immediately upon the enactment of this Act, except for the performance of a contract or agreement entered into before the enactment of this Act.

(d) The penalties for violation of this general prohibition by exporters, exporting agents and entities under the jurisdiction of the United States, shall be the same as those contained in section 21 of the Export Administration Act of 1979, as amended, Public Law 96-72 (93 Stat. 529, as amended).

Iraq To Be Considered A Terrorist Nation

Sec. 201. (a) Notwithstanding any other provision of law, for the purpose of the application of prohibitions, limitations, restrictions, and other requirements of the provisions of law contained in subsection (b), Iraq shall be considered a country which grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism, has repeatedly provided support for acts of international terrorism, or otherwise supports international terrorism.

(b) The provisions of law referred to in subsection (a) include--

(1) Section 620A of the Foreign Assistance Act of 1961, as amended;

(2) Sections 563 and 564 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990;

(3) Section 555 of the International Security and Development Cooperation Act of 1985; and

(4) similar provisions of law.

(c) The President may not use any waiver authority provided under statutes referred to in subsection (b) of this section, or statutes made applicable by virtue of subsection (b)(4), or under section 40(b) of the Arms Export Control Act, with respect to Iraq, except as provided in section 301(a)(2) of this Act.

Prohibition On Transactions With Iraq

Sec. 301. (a) Notwithstanding any other provision of law, the following are prohibited--

(1) the import into the United States of any goods or services of Iraqi origin, other than publications and materials imported for news publications or news broadcast dissemination;

(2) the export to Iraq of any goods, technology (including technical data or other information), or services from the United States, except publications and donations of articles intended to relieve human suffering, such as food, clothing, medicine and medical supplies intended strictly for humanitarian medical purposes;

(3) any transaction by a United States person relating to transportation to or from Iraq; the provision of transportation to or from the United States by any Iraqi person or any vessel or aircraft of Iraqi registration; or the sale in the United States by any person holding authority under the Federal Aviation Act of any transportation by air which includes any stop in Iraq;

(4) the purchase by any United States person of goods for export from Iraq to any country;

(5) the performance by any United States person of any contract in support of an industrial or other commercial or governmental project in Iraq;

(6) the grant or extension of credits, loans or loan guarantees, by any United States person to the Government of Iraq, its instrumentalities and controlled entities;

(7) any transaction by a United States person relating to travel by any United States citizen or permanent resident alien to Iraq, or to activities by any such person within Iraq, after the

date of the enactment of this Act, other than transactions necessary to effect such person's departure from Iraq, to perform acts permitted until the date of enactment of this Act, by paragraph (3) of this subsection, or travel for journalistic activity by persons regularly employed in such capacity by a news gathering organization;

(8) the acceptance, receipt, or holding by a United States depository institution of a deposit account from the Government of Iraq or from any agency or entity owned or controlled by the Government of Iraq except for such accounts which may be authorized by the President for diplomatic or consular purposes. For purposes of the preceding sentence, the term "depository institution" has the same meaning as in section 19(b)(1) of the Federal Reserve Act. The prohibition contained in this paragraph shall take effect 45 days after the enactment of this Act; and

(9) any transaction by any United States person which evades or avoids, or has the purpose of evading or avoiding, any of the prohibitions set forth in this Act.

(b) In light of the prohibition in Section 1(a) of this Act, section 251 of the Trade Expansion Act of 1962, as amended (19 U.S.C. 1881), and section 126 of the Trade Act of 1974, as amended (19 U.S.C. 2136) will have no effect with respect to Iraq.

(c) A civil penalty of not to exceed \$250,000 may be imposed on any person who violates any license, order, or regulation issued under this Act.

(d) Whoever, other than an individual, willfully violates any license, order, or regulation issued under this title shall, upon conviction, be fined not more than \$1,000,000, or, if an individual, shall be fined no more than \$500,000, or be imprisoned for not more than 10 years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

(e) This section shall become effective immediately upon the enactment of this Act, except for the performance of a contract or agreement entered into before the date of enactment of this Act.

(f) The Secretary of the Treasury, in consultation with the Secretary of State, is hereby authorized to take such actions, including the promulgation of rules and regulations, as may be necessary to carry out the provisions of this section. Such actions may include prohibitions or regulating payments or transfers of any property or any transactions involving the transfer or anything of economic value by any United States person to the Government of Iraq, its instrumentalities and controlled entities, or to any Iraqi national or entity owned or controlled, directly or indirectly, by Iraq or Iraqi national. The Secretary may redelegate any of these functions to other officers and agencies of the Federal government. All agencies of the United

States government are directed to take all appropriate measures within their authority to carry out the provisions of this section, including the suspension or termination of licenses or other authorizations in effect as of the date of the enactment of this Act.

(g) For purposes of this Act, the terms "person", "United States person", "good", "technology", "export", and "United States", shall be the same as those contained in section 16 of the Export Administration Act of 1979, as amended, Public Law 96-72 (93 Stat. 529, as amended), except that the term "controlled country" shall mean Iraq.

Prohibition On Export-Import Bank Assistance To Iraq

Sec. 401. (a) Section 512 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1990, is amended in the last proviso of that section by inserting ", except with regard to Iraq," after "That".

Prohibition On Imports Of Crude Oil And Petroleum Products From Iraq

Sec. 501. (a) Notwithstanding any other provision of law, no crude oil or refined petroleum products of Iraqi origin may be imported into the United States.

(b) Subsection (a) does not apply to any import pursuant to a contract entered into before the date of enactment of this Act.

(c) A civil penalty of not to exceed \$250,000 may be imposed on any person who violates any license, order, or regulation issued under this Act.

(d) Whoever, other than an individual, willfully imports crude oil or refined petroleum products into the United States, directly or indirectly from Iraq, or who willfully violates any license, order, or regulation issued under this section shall, upon conviction, be fined not more than \$1,000,000, or, if an individual, shall be fined no more than \$500,000 or imprisoned for not more than 10 years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both.

(e) For purposes of this Act, the term "indirect" refers to the importation into the United States, either in whole or in part, from or through, any third party, country or entity. Crude oil and refined petroleum products of Iraqi origin shall include any crude oil and refined petroleum products that are commingled in any percentage amount with that from any other country or territory of origin.

Study And Report On The International Export To Iraq Of
Nuclear, Biological, Chemical And Ballistic Missile Technology

Sec. 601. (a) The President shall conduct a study on the sale, export and third party transfer or development of nuclear, biological, chemical and ballistic missile technology to or with Iraq including--

(1) an identification of specific countries, as well as companies and individuals, both foreign and domestic, engaged in such sale or export of, nuclear, biological, chemical and ballistic missile technology;

(2) a detailed description and analysis of the international supply, information, support and co-production network, individual, corporate and state, responsible for Iraq's current capability in the area of nuclear, biological, chemical and ballistic missile technology;

(3) A recommendation of standards and procedures against which to measure and verify a decision of the Government of Iraq to terminate the development, production, co-production and deployment of nuclear, biological, chemical and offensive ballistic missile technology as well as the destruction of all existing facilities associated with such technologies.

(b) The President shall include in the study specific recommendations on new mechanisms, to include legal, political, economic and regulatory, whereby the United States might contribute, in conjunction with its friends, allies, and the international community, to the management, control or elimination of the threat of nuclear, biological, chemical and ballistic missile proliferation.

(c) Not later than December 1, 1990, the President shall submit to the Committee on Appropriations of the Senate and the Committee on Appropriations of the House of Representatives, a report, in both classified and unclassified form, setting forth the findings of the study required by subsection (a).

Study And Report On Iraq's Offensive Military Capability

Sec. 701. (a) The President shall conduct a study on Iraq's offensive military capability and its affect on the Middle East balance of power including an assessment of Iraq's power projection capability, the prospects for another sustained conflict with Iran, joint Iraqi-Jordanian military cooperation, the threat Iraq's arms transfer activities pose to U.S. allies in the Middle East, and the extension of Iraq's political-military influence into Africa and Latin America.

(b) Not later than December 1, 1990, the President shall submit to the Committee on Appropriations of the Senate and the Committee on Appropriations of the House of Representatives, a report, in both classified and unclassified form, setting forth the findings of the study required by subsection (a).

Report On Sanctions Taken By Other Nations Against Iraq

Sec. 801. (a) The President shall prepare a report on the steps taken by other nations against to curtail the export of goods, services and technologies to Iraq which might contribute to, or enhance, Iraq's nuclear, biological, chemical and ballistic missile capability.

(b) The President shall make every effort to encourage other nations, in whatever forum or context, to adopt sanctions toward Iraq similar to those contained in this Act.

(c) Not later than every six months from the date of enactment of this Act, the President shall submit to the Committee on Appropriations of the Senate and the Committee on Appropriations of the House of Representatives, a report in both classified and unclassified form, setting forth the findings of the study required by subsection (a).



United States Department of State

Washington, D.C. 20520

APR 10 1990

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Dear Mr. Darman:

This letter forwards the State Department's views on the Berman bill imposing sanctions on Iraq, as you requested.

The bill imposes open-ended sanctions against Iraq without linking them to any policy objective. Thus it would eliminate any Presidential flexibility in dealing with an important but difficult country, without specifically furthering any U.S. national interests.

The President has made clear his concern at the recent Iraqi attempts to smuggle capacitors -- with possible use in nuclear weapons -- out of the U.S. He has made clear his outrage at the irresponsible threats issued by Iraq's President Saddam Hussein. There have always been significant U.S. concerns about Iraqi behavior, and in fact the U.S. Government has long imposed many of the measures the legislation would mandate. The State Department generally prohibits the sale or transfer of U.S. Munitions List items to Iraq. Fifty chemicals identified as potentially usable in chemical weapons programs are prohibited for export to Iraq. Items on the Commodity Control List deemed likely to aid Iraq's nuclear, missile, or other proliferation programs are denied.

Of the other sanctions envisioned by the bill, we note that Iraq is one of the largest markets for U.S. agricultural exports. The primary objective of our agriculture credit programs with Iraq has been to increase sales of U.S. farm products abroad. This GSM program, which has run about \$1 billion annually in recent years, provides credit guarantees to U.S. exporters of agricultural commodities. It has been the strong and repeated position of the Administration not to use food as an economic weapon of foreign policy through the imposition of embargoes on agricultural exports, or otherwise to place limits on our export programs for political purposes.

The short-term U.S. Export-Import Bank credit insurance is intended to promote the export of U.S. industrial goods. On January 17 President Bush signed a waiver to the FY 89 Foreign Operations Appropriations Act to enable this program to continue on national interest grounds.

The Honorable
Richard Darman,
Director,
Office of Management and Budget.

- 2 -

Regarding U.S. votes in International Financial Institutions such as the IMF, which seeks to support a stable, market-oriented economy, the United States has traditionally tried to avoid politicization of the IMF, which would undermine the Fund's technical and monetary character. By basing IMF actions on political criteria, the United States would create a precedent others would inevitably try to exploit in ways inimical to U.S. interests. For example, important U.S. allies such as Israel could be subject to similar efforts by other countries. Such politicization would divert the IMF's attention from pressing needs in the international economic system, including debt strategy and restructuring of Eastern Europe. In addition, it is the opinion of the Department of Justice that legislation mandating U.S. votes in International Financial Institutions would be unconstitutional.

The State Department opposes the virtually total economic embargo of Iraq which would result from this Bill. The President needs flexibility in dealing with Iraq on such important issues as the Arab-Israeli Peace Process, in which Iraq has the capability to play a positive -- or negative -- role. The Administration maintains an active review of our policy towards Iraq with a view towards assessing how best to further our interests in this thorny bilateral relationship. The Administration's approach to Iraq has been to deal firmly with problems as they arise within the context of broad, many-faceted relations. Imposition of rigid, legislated sanctions will not support vital U.S. interests in the region, and might well undercut important U.S. objectives.

Experience has shown sanctions are most effective when imposed multilaterally. At this point our allies are not contemplating sanctions against Iraq. Any sanctions imposed would therefore be symbolic only, with the costs borne by the United States.

For the above reasons, the State Department opposes the Berman bill.

Sincerely,

151

Janet G. Mullins
Assistant Secretary
Legislative Affairs



Washington, D.C. 20520

5/21 1600 JV

Dear Mr. Chairman:

This letter forwards the State Department's views on the Berman Bill, H.R. 4585, which imposes sanctions on Iraq.

The bill imposes open-ended sanctions against Iraq without linking them to any policy objective. It would eliminate Presidential flexibility in dealing with an important but difficult country, without specifically furthering any U.S. national interests.

The President has made clear his concern at the recent Iraqi attempts to smuggle capacitors -- with possible use in nuclear weapons -- out of the U.S. He has expressed his outrage at the irresponsible threats issued by Iraq's President Saddam Hussein. There have always been significant U.S. concerns about Iraqi behavior, and in fact the U.S. Government has long imposed many of the measures the legislation would mandate. The State Department generally prohibits the sale or transfer of U.S. Munitions List items to Iraq. Fifty chemicals identified as potentially usable in chemical weapons programs are prohibited for export to Iraq under the authority of the Export Administration Act. Items on the Commodity Control List deemed likely to aid Iraq's nuclear, missile, or other proliferation programs are also denied.

Some provisions of the bill would require changes in current U.S. policy. These include Section 2(c) - Exports of Dual Use Items; Section 2(f) - Assistance from International Institutions; and Section 2(g) Denial of Access to the Export-Import Bank.

As noted above, the U.S. already denies Iraq items likely to be of use to nuclear, missile or chemical weapons items. We are currently reviewing our export regulations to see if we can further clarify U.S. controls on exports of technology related to these items. Such action is taken in cooperation with the non-proliferation efforts of our allies in order to ensure its

The Honorable
Dante B. Fascell,
House of Representatives.

effectiveness. The relatively small number of potential dual use items approved for sale to Iraq are not central to our non-proliferation efforts. Prohibition of such sales would deny U.S. exporters access to the Iraqi market without impairing Iraq's ability to obtain the items in question.

The legislation would subject to political criteria U.S. votes in International Financial Institutions, such as the IMF, which seek to support a stable, market-oriented economy. The United States traditionally has tried to avoid politicization of the IMF, which would undermine the Fund's technical and monetary character. By basing IMF actions on such criteria, the United States would create a precedent others would inevitably try to exploit in ways inimical to U.S. interests. Furthermore, during the last 20 years, Iraq has not shown any interest in using IMF resources and shows no interest in using them now. Such politicization would divert the IMF's attention from pressing needs in the international economic system, including debt strategy and restructuring of Eastern Europe. In addition, it is the opinion of the Department of Justice that legislation mandating U.S. votes in International Financial Institutions would constitutionally interfere with the President's prerogative with respect to the conduct of foreign policy.

The short-term U.S. Export-Import Bank credit insurance is intended to promote the export of U.S. industrial goods. On January 17 President Bush signed a waiver to the FY 89 Foreign Operations Appropriations Act to enable this program to continue on national interest grounds.

The President needs flexibility in dealing with Iraq on such important issues as the Arab-Israeli Peace Process, in which Iraq has the capability to play a positive -- or negative -- role. The Administration maintains an active review of our policy towards Iraq with a view towards assessing how best to further our interests in this thorny bilateral relationship. The Administration's approach to Iraq has been to deal firmly with problems as they arise within the context of broad, many-faceted relations. Imposition of rigid, legislated sanctions will not support vital U.S. interests in the region, and might well undercut important U.S. objectives.

Experience has shown sanctions are most effective when imposed multilaterally. At this point neither we nor our allies are contemplating sanctions against Iraq. Sanctions

-3-

required by H.R. 4585 would therefore be symbolic only, with the costs borne by the United States.

For the above reasons, the State Department opposes the Berman bill.

The Office of Management and Budget advises that from the standpoint of the Administration's program there is no objection to the submission of this report.

Sincerely,

Janet G. Mullins
Assistant Secretary
Legislative Affairs

Enclosure:

Six Copies of
Proposed Report.

JUDITH SCHUMER

JACOB DOBBS, Texas Chairman

ROBERT W. LADD, Michigan

BOB DODD, California

JOHN C. STANLEY, Jr., Michigan

ROBERT L. WALKER, Kentucky

WILLIAM J. HART, New Jersey

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ONE HUNDRED FIRST CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON THE JUDICIARY

2136 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6216

JUDITH SCHUMER

HAROLD F. PETERSON, Jr., New York

CARLOS J. RODRIGUEZ, California

ROBERT J. WYSE, Illinois

J. JAMES SCHNEIDERMAN, Jr., Wisconsin

DICK MULLIN, Florida

GORDON W. DEAN, Pennsylvania

MICHAEL J. BROWN, Ohio

WILLIAM E. SCHNEIDERMAN, California

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June 11, 1990

The Honorable James A. Baker, III
 Secretary of State
 U.S. Department of State
 Washington, D.C. 20520

Dear Mr. Secretary:

For the past six months, the Subcommittee on Criminal Justice has been reviewing certain allegations concerning the Atlanta branch of Banca Nazionale de Lavoro and the U.S. Attorney's investigation of that bank. In January, I requested that the General Accounting Office examine loans through Lavoro to Iraqi buyers that were not authorized by higher level bank officials, as well as suggestions that those loans may have been used to purchase machinery for weapons technology.

The Subcommittee has heard allegations about the State Department's efforts to influence the U.S. Attorney's investigation. Those allegations have been confirmed by State Department officials quoted in yesterday's New York Times. According to the Times' article, the State Department and the Justice Department have held "numerous" meetings on the investigation, and the State Department has told the Justice Department not to be "unnecessarily severe in their handling of the case" for fear of jeopardizing U.S.-Iraqi relations.

Such State Department strong-arming of the Justice Department is wholly inappropriate and amounts to the subjugation of a domestic law enforcement investigation for questionable foreign policy goals. Law enforcement cannot take a back seat to international machinations. I therefore strongly urge that the State Department refrain from further interfering in the Justice Department's investigation of the Lavoro scandal.

Sincerely,

Charles E. Schumer

CHARLES E. SCHUMER

Chairman

Criminal Justice Subcommittee



United States Department of State

Washington, D.C. 20520

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Dear Mr. Chairman:

Secretary Baker has asked me to respond to your letter of June 11, 1990, regarding the Justice Department's investigation of the Atlanta branch of Banca Nazionale del Lavoro (BNL) and alleged State Department interference with the Justice Department's handling of this matter. I apologize for the delay in responding to your inquiry.

The Department of State has not interfered in the Justice Department's handling of this matter. While the State Department is in frequent contact with the Justice Department on a range of issues of mutual concern, including the BNL matter, this is not for the purpose of interfering in Justice Department functions. Law enforcement actions can have a direct and foreseeable effect upon U.S. foreign relations. It is important for the Department of State, the executive branch agency charged with the administration of U.S. foreign policy, to coordinate with the Justice Department to ensure that enforcement agencies have the information they may need concerning the foreign-policy implications of matters for which they have responsibility and to ensure that the State Department is aware of anticipated law enforcement actions that may have an adverse impact on foreign relations. In this particular case, for example, it was important that the Department understand the nature of Justice's BNL investigation in order to formulate a position on whether to continue or suspend our CCC program with Iraq.

I hope the above information is responsive to your concerns, and I thank you for writing.

Sincerely,

Wm. G. Mullins
 Janet G. Mullins
 Assistant Secretary
 Legislative Affairs

The Honorable
 Charles E. Schumer,
 Chairman,
 Criminal Justice Subcommittee,
 U.S. House of Representatives.

**Amnesty International Human Rights Reports - Iraq
1982-1990**

AMNESTY INTERNATIONAL REPORT 1982

AMNESTY INTERNATIONAL
REPORT 1982
A SURVEY OF POLITICAL
IMPRISONMENT, TORTURE & EXECUTIONS
IN 1981

a survey of political
imprisonment, torture & executions

Edited by David G. Green

U.S. House of Representatives



ment, summary trials of political prisoners, torture, and executions.

Disident groupings from the Shi'i and Kurdish communities in Iraq became more active inside and outside Iraq during 1981. Several alliances between banned parties were forged soon after the outbreak of the Iran-Iraq war. These included the Iraqi Communist Party (ICP), the Kurdish Democratic Party (KDP), the Patriotic Union of Kurdistan (PUK), *Al-Da'wa Al-Islamiya* (the Islamic Call), and the Syrian wing of the Arab Ba'ath Socialist Party. Increasing political activity ranged from anti-government demonstrations, speeches and the distribution of leaflets to attacks on government officials and property. The government responded by systematically arresting many suspected opponents, deporting tens of thousands of Iraqi Shi'i whose loyalties were suspect across the border into Iran, and passing numerous death sentences.

Amnesty International continued to ask the Iraqi Government for information about a number of prisoners whose cases were being investigated by the organization. These included two members of the ICP — Dr Safa al-Hafidi and Dr Sabbah al-Darrah — who "disappeared" after their arrest on 8 February 1980.

The fate and whereabouts of three scientists — Dr Hassan al-Shahrastani, Dr Hassan al-Rajai and Dr Ja'far Dhiab Ja'far — who were arrested at the end of 1979, also remained unknown. On 2 April 1981 the London journal *New Scientist* stated that: "Dr Shahrastani has been killed while in custody." The Minister of Religious Endowments (*Awqaf*), Nuri Faisal Al Shabib, was reported in the *Toronto Globe and Mail* of 31 August to have said of Dr Shahrastani: "that nobody with such a name had ever worked for the Atomic Energy Commission or as an adviser to President Saddam Hussein, that Dr Shahrastani was not an Iraqi name but an Iranian name...." Amnesty International received no reply from the Iraqi Government to its repeated inquiries about the fate of Dr Shahrastani.

Amnesty International was also investigating the cases of 31 former government officials of the ruling Ba'ath Party. Arrested in July 1979 they were convicted of being party to, or withholding information about, a conspiracy against the government. They were sentenced to up to 15 years' imprisonment after a trial before a

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Special Court in August 1979, in which procedures fell short of internationally recognized standards for a fair trial. As far as was known there was no defence counsel present nor was any appeal against the verdict allowed.

Amnesty International learned of the arrest of several members and supporters of the ICP, after a house-to-house search by security forces in the Sulaimaniya area in February 1981. The whereabouts of those arrested and the charges against them were still unknown at the end of 1981.

Amnesty International viewed with concern reports that four Iraqi Kurdish school children aged 12 and 13 from the village of Kalar, Sulaimaniya Province, had been arrested in February 1981. They were members of the Students Union of Kurdistan. Their families had no word of their fate or whereabouts after their arrest; opposition sources stated that they had been executed. On 9 November 1981 Amnesty International wrote to President Saddam Hussein urging him to investigate the fate of the four children.

On 29 April Amnesty International published *Iraq: Evidence of Torture*, a report documenting continuing and widespread torture in Iraq. It contained medical findings and other evidence of the torture of political prisoners. A panel of Amnesty International doctors interviewed and examined 15 Iraqi exiles who alleged that they had been tortured in the custody of Iraqi security forces between September 1976 and August 1979. In every case it found that the results of the physical examination were consistent with the tortures described. In the report Amnesty International recommended an end to incommunicado detention; allowing lawyers, family and doctors prompt access to prisoners; and bringing people to court without delay after arrest. It called on the Iraqi Government to honour its commitments under the International Covenant on Civil and Political Rights, which Iraq ratified in 1971 and which prohibits torture.

On 27 April 1981 the government responded to the report and described it as "without foundation". The 1,500-word government response emphasized that torture was banned by the nation's constitution and laws. However it did not reply in detail to the specific allegations of torture in the report and did not allay Amnesty International's concern.

After the report was published Amnesty International continued to receive renewed allegations of torture. Twelve-year-old Ali Hama Salih, an Iraqi Kurd school-boy from the village of Ja'afra in Sulaimaniya Province, died in custody reportedly as a result of torture. He was arrested on 25 February and detained for interrogation in the headquarters of the security forces in Karadagh. On 5 March his body was returned to his family reportedly severely marked by

torture. On 9 November Amnesty International wrote to President Saddam Hussain urging him to investigate the death of Ali Hama Salih but received no reply.

Amnesty International was deeply concerned about the growing number of executions in Iraq. Reports indicated that more than 350 executions took place in 1981. Offences for which people were executed included alleged plots against the government, political activity in the armed forces, membership of or association with illegal political parties, and other illegal political activities. In addition, a new capital offence was established by Revolutionary Command Council (RCC) Resolution No. 1140 which stipulated that: "Whoever returns to commit a crime of desertion from the Military Service during the War, after handing over himself to the competent authorities or after being captured, shall be punished with the Capital Punishment."

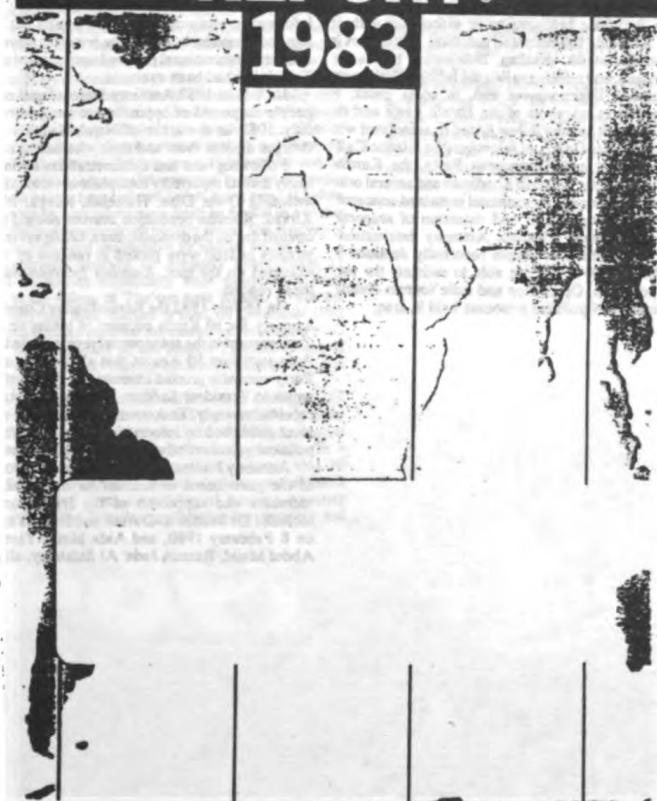
In June 1981 Amnesty International appealed to President Saddam Hussain to commute the death sentences passed by the Special Military Court in Kirkuk on 27 Iraqi Kurds, all alleged members and supporters of the banned Patriotic Union of Kurdistan (PUK). On 20 June 1981 Amnesty International appealed to the PUK to release five nationals of the Federal Republic of Germany taken hostage by the PUK in retaliation against the 27 death sentences. Amnesty International learned later that 14 of the 27 Kurds had been executed, but that all five hostages had been released by the PUK on 23 July and 19 August. A further 140 members and supporters of the PUK in detention were reportedly executed in Abu Ghraib prison at the end of September.

On 16 March 1981 the Syrian daily newspaper *Al Ba'ath* reported that 176 members of the Iraqi armed forces had been executed by the Iraqi authorities. Amnesty International was unable to verify this report. In the first week of October 1981 the international press and opposition sources reported that 38 pro-Syrian Iraqi Ba'athists were executed on 26 September after the arrest of Idam Al Hadithi, a senior Ba'ath Party official from Kirkuk. The arrest was said to have led to the uncovering of a conspiracy against the Iraqi Government. The executions were denied by an Iraqi spokesperson in London.

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expression of their political beliefs, the lack of basic legal safeguards in trials of political prisoners before the Revolutionary Court and the Special Military Court, "disappearances", torture and deaths in custody. Amnesty International continued to be concerned about the large number of executions, including executions for political offences after trials lacking basic legal safeguards.

Political activity, including belonging to or associating with an illegal organization, attending unauthorized meetings, taking part in anti-government demonstrations, printing, distributing or reading banned political literature, and refusing to join the ruling Ba'ath party could all lead to arrest, imprisonment and, in some cases, to execution. Members and ex-members of the Ba'ath party and the armed forces faced the death penalty if they joined or associated with any illegal party, including *Al Da'wa Al Islamiya* (the Islamic Call), the Iraqi *Mujahideen*, the Iraqi Communist Party, the Kurdish Democratic Party, the Patriotic Union of Kurdistan and several other smaller Kurdish parties. Amnesty International remained concerned about the widespread arbitrary arrest and detention of suspected opponents of the government. Although Amnesty International received the names of hundreds of people reportedly detained on political grounds since 1979, it was not able to estimate the total number of political prisoners. Opposition and exile sources claim that there were thousands of political prisoners held in Iraq.

During 1982 the cases of 38 possible prisoners of conscience were under investigation by Amnesty International (see *Amnesty International Report 1981 and 1982*). Amnesty International repeatedly requested information from the government regarding these cases, but the authorities rarely responded, except to say that Amnesty International's information was "unreliable" and "without foundation".

In April 1982 Amnesty International learned of the arrests of four assistants to Ayatollah Al Kho'i, a spiritual leader of the world's Shi'a Muslim community. They were Mohammad Irwani, Mohammad Badqubi, Sayyid Kammoussi and Mohammad Taki Jalali. Eleven of his closest assistants and many of his 131 students had reportedly been arrested shortly after the beginning of the Iraq-Iran war. In 1981 Amnesty International wrote to the Iraqi Government requesting information about these reported arrests but received no reply. The fate and whereabouts of all these prisoners remained unknown, although Amnesty International received unconfirmed reports that Mohammad Taki Jalali had been executed.

In August 1982 Amnesty International received reports that 52 people suspected of opposition to the government were arrested in July 1982 in the areas of Najaf, Kerbala and Khadhimiya. The charges against them and their whereabouts were unknown.

Following riots and demonstrations during the first half of 1982 many arrests reportedly took place in various cities in Iraqi Kurdistan including Qalat Diza, Halabjah, Ranya, Irbil, Sulaymaniyah and Kirkuk. Kurdish opposition sources alleged that the security forces opened fire on the demonstrators, killing several, and that two demonstrators in Irbil were picked at random by the security forces and executed on the spot. Amnesty International was unable to verify these reports.

On 16 July 1982 the Revolutionary Command Council issued an amnesty for all Kurds accused of taking up arms against the Iraqi Government in the autonomous region. Deputy Prime Minister Tariq Aziz stated on 10 August that all members of the Iraqi Communist Party were also granted amnesty. On 6 August Amnesty International wrote to President Saddam Hussain for details of the amnesty but received no reply. To Amnesty International's knowledge the government published no information concerning the names or number of political prisoners who benefited from the amnesty.

Amnesty International was concerned about the continued failure of the government to account for the "disappearance" of several members and supporters of the Iraqi Communist Party. These included Dr Sabbah al-Durrah and Dr Safa al-Hafidh, both arrested on 8 February 1980, and Aida Mutar Yassin, Leyla Yusif, Raja' Abdul Majid, Ramzia Jada' Al Shabany, all arrested in July 1980.

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Their relatives claimed that they had not been able to obtain any information about them since their arrest. Amnesty International asked for information about these arrests but received no reply.

Amnesty International continued to receive allegations of torture and reports of death under torture. After its publication *Iraq: Evidence of Torture* appeared in April 1981, Amnesty International learned of 29 people who allegedly died under torture between 1979 and 1981.

After the publication of the report Amnesty International called on the Iraqi Government to receive an Amnesty International mission to discuss the report and aspects of legal and administrative practice. The government agreed to receive an Amnesty International delegation at the beginning of 1983.

Amnesty International continued to receive reports on the summary proceedings employed by different types of special court, including the Revolutionary Court in Baghdad and the Special Military Court in Kirkuk. The Revolutionary Court dealt with offences against internal or external security as well as certain economic and drug offences. It consisted of two military officers and a civilian president who were all members of the ruling Ba'ath Party. The defendant was usually only given access to a defence lawyer after the investigative stage had been closed and trials were frequently held *in camera*. The Special Military Court of Kirkuk tried Kurds arrested in the Kurdish region charged with political offences. Trials were held *in camera* and no defence counsel permitted. Amnesty International received numerous reports of detainees having been tortured before being brought before this court. Sentences by both courts were final: no appeal to a higher court of law was allowed, even in death penalty cases. The majority of death sentences in Iraq were pronounced by special courts.

According to reports received by Amnesty International 27 members of the Turkman community were executed in early February 1982 in the village of Tis'een near Kirkuk. It was not known whether they had been charged or tried. In December 1982 Kurdish opposition sources reported the executions in August 1982 of 10 members and supporters of the banned Patriotic Union of Kurdistan. They were allegedly tried by the Special Military Court in Kirkuk and sentenced to death.

According to the predominantly Shi'i *Al-Da'wa Al-Islamiya*, 166 of its members and supporters were executed in early 1982. Legislation in force since 1980 makes membership of, or affiliation to, *Al-Da'wa Al-Islamiya* an offence carrying the death penalty. On 4 January 1982, the official news agency, INA, reported that 30 members of *Al-Da'wa Al-Islamiya*, "convicted of crimes punishable by execution", benefited from a presidential pardon. Amnesty International wrote to the President welcoming the amnesty and

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requested that this measure be extended to all those under sentence of death. It also requested the names of all those who were amnestied but received no reply.

Thirty-five members and supporters of the Iraqi Communist Party were reportedly executed in Kerbala in September and October 1982. Their bodies were said to have been returned to their families for burial. Amnesty International was unable to verify these reports. Other reports reaching Amnesty International suggested that several army officers had been executed for their "bad performance" in the Iraq-Iran war.

No executions known to Amnesty International were announced or confirmed by the authorities except that of Dr Riad Ibrahim Hussain, former Health Minister, following his dismissal from the government in June 1982. The exact date of his execution was not known nor whether he was charged or tried. The official news agency quoted President Saddam Hussain as saying that Dr Riad Ibrahim Hussain "had imported medicine which killed people" and had been executed as a "traitor".





Amnesty International continued to be concerned about the widespread arbitrary arrest of political suspects and their prolonged detention in the custody of the state security forces without charge or trial. Amnesty International remained concerned about "disappearances" and the continued detention of civilians in prisoner of war camps apparently on account of their ethnic origin and without legal proceedings. Other major concerns included the routine torture of detainees during interrogation and the ill-treatment and detention of members of their families allegedly to exert pressure on detainees to cooperate during interrogation, and the large number of executions, most of which were for political crimes.

An Amnesty International mission visited Iraq in January 1983 and discussed with various government ministers and members of the judiciary allegations of the routine and widespread torture of political detainees, the disregard of arrest and detention procedures for political suspects as laid down in the Code of Criminal Procedure, the lack of basic legal safeguards in the Revolutionary Court that tries most political detainees and the large number of executions for political offences. The mission also inquired about the detention of people suspected of opposing the government.

On 6 May 1983 Amnesty International submitted a memorandum to the government, based on the mission's findings, which included detailed recommendations for measures to protect human rights. Amnesty International concluded that torture was routine and widespread in Iraq and the functioning of the Revolutionary Court amounted to a gross violation of domestic and international law and that the

long list of political prisoners in Iraq was a gross violation of international law. The organization urged that President Saddam Hussain issue a personal statement prohibiting torture, and that rules consistent with international standards be drawn up concerning: access to prisoners, interrogation methods, supervision of interrogators and prison warders, medical treatment and documentation, the admissibility in evidence of statements made by prisoners under interrogation, investigation of complaints of torture and the prosecution of the culprits. It also urged the government to give immediate consideration to abolishing all special courts and the death penalty.

On 28 June 1983 the government responded to the Amnesty International memorandum. It denied that gross human rights abuses had taken place in Iraq. It said that no political suspects or detainees were held and that nobody could be arrested except on a warrant issued by the court. It also stated that there had been no political executions, that the allegations of torture were false and that Amnesty International's recommendations focused on legal procedures which were already in force. The government gave its assurance that the security forces had frequently been ordered "to comply with the proper procedures on investigation, with strong warnings against abuse of their powers". It stated that cases of torture, which it said happened occasionally, had been investigated and that the perpetrators had been dealt with. The government also offered to investigate allegations of torture made in a previous Amnesty International report published in April 1981, *Iraq: Evidence of Torture*, if the victims, who had been interviewed in exile, were identified and returned to Iraq.

On 5 October 1983 the government replied to the government and on 19 October published *Report and Recommendations of an Amnesty International Mission to the Government of the Republic of Iraq 22-28 September 1983*. The report contained the government's response and Amnesty International comments. Amnesty International reiterated its concerns and recommendations and noted that it had the names and particulars of 520 political prisoners reportedly executed between 1978 and 1981. It also disclosed the names of 22 people said to have died under torture while in custody between 1976 and 1981 and called on the government to investigate these cases and the whereabouts of a further 114 people who had "disappeared" since reportedly being arrested between 1979 and 1982. In December 1983 the government replied to Amnesty International, stating that, among other things, of prejudice and stating that the names Amnesty International had submitted were fictitious.

After the mission, Amnesty International continued to receive allegations of the arrest, detention and torture of suspected opponents of

the government. In many cases arrests appeared to be carried out arbitrarily and without warrant. Individuals were often detained without charge or trial with their families being unable to establish where they were being held, despite official assurances to Amnesty International delegates in 1983 that no one could be detained without an arrest warrant issued by the court, and that suspects were detained in official police stations and were entitled to contact their relatives, appoint a lawyer and be seen by a doctor.

Amnesty International did not have sufficient information to gauge the full extent of political imprisonment in Iraq, mainly because of the authorities' disregard for legality and their frequent refusal to acknowledge, explain or record arrests.

The organization believed, however, that at least several hundred people were detained for political reasons in 1983. In one case over 130 members of the family of Ayatollah Muhammad Bagher Al Hakim, the spokesperson in Iran of an Iraqi Shi'ite opposition group, ranging in age from nine to 76, were reportedly arrested in the first two weeks in May and detained by the security forces in the holy city of Najaf. Sixty of those arrested were religious scholars. On 24 May Amnesty International expressed its concern to the Iraqi authorities about the reported arrests and requested clarification of the legal status of those arrested. On 6 June an official at the Iraqi embassy in London confirmed that the arrests had taken place. He said that the three eldest members of the family had been released within two days of arrest and that releases were continuing - but that other members of the family were still being detained for interrogation.

In early June Amnesty International learned that at least six of those arrested were executed in prison in Baghdad on 19 May 1983 after being tortured: three brothers of Muhammad Bagher Al Hakim - Sayyid Ala'uddin, Sayyid Abd Al Sahib and Sayyid Muhammad Hussain - and three nephews of Muhammad Bagher Al Hakim - Sayyid Kamal, Sayyid Abdul Wahab and Ahmad Al Hakim. On 20 June Amnesty International sent a telex to President Saddam Hussain and the Minister of the Interior expressing concern and seeking clarification of the reported executions. Amnesty International also urged that no further executions take place. The organization had received no response by the end of 1983.

Five hundred suspected government opponents were reportedly arrested in August in the Kut province but Amnesty International was unable to verify this report and remained unaware of the number of detainees who continued to be held without charge or trial.

In August Amnesty International welcomed the release of 31 Ba'ath Party officials who were originally arrested in mid-July 1979 and had been tried in August 1979 by a special court in Baghdad on charges of

plotting against the government. They had been serving sentences ranging from one to 15 years' imprisonment and Amnesty International had taken up the cases for investigation (see *Amnesty International Report 1980*).

A continuing concern throughout 1983 was the fate of several hundred civilians of Iranian origin including children, women and old people, who had been held in prisoner of war camps since the beginning of the Iraq-Iran war in 1980. Amnesty International was concerned that they may have been held solely on the basis of their ethnic origin and without legal proceedings. In May 1983 the International Committee of the Red Cross stated publicly that several hundred such prisoners had been "concealed" from its delegates and that among those it visited "ill-treatment has frequently been observed".

Amnesty International continued to press the Iraqi authorities to clarify the fate of at least 114 people who "disappeared" between 1979 and 1982. In many cases there was clear evidence of the involvement of the security forces in the arrest of the victims prior to "disappearance".

Allegations of torture, sometimes resulting in death, continued. First-hand testimonies of torture received by Amnesty International during 1983 were consistent with information obtained in previous years and indicated that torture was a routine practice in interrogation centres and during pre-trial detention. A former detainee held by the security forces from 30 June 1983 to 18 October 1983 described being beaten on the soles of the feet, being given electric shocks on various parts of the body, and being threatened with having his ear cut off; he was examined after his release by an independent doctor who concluded that the results of the medical examination were consistent with the alleged torture. Former detainees who had not themselves been tortured referred to the torture of fellow detainees, many of whom had reportedly been returned to the cells after interrogation with, among other signs of torture, bruises on the body, burns, broken limbs, hematomas, swollen skin, and with their toe nails having been pulled out. The wives and children of some detainees had allegedly been detained as well and held in nearby cells in order to put pressure on detainees to "cooperate during interrogation".

On 19 October Amnesty International again urged the authorities to conduct impartial inquiries into seven cases of death under torture which it had previously brought to the authorities' attention without receiving any reply. The cases documented in Amnesty International's publication, *Report and Recommendations of an Amnesty International Mission to the Government of the Republic of Iraq* included those of Reber Mulla Husain, Sayyid Muhammad Ismail, Haji Sayyid Ma'rouf, Hameed 'Ati, Adnan Abd Al Jabbar, Muzhir Halli Al Rachid and Ali Hama Salih.

Disruption Amnesty International recorded over 300 executions but believed that the actual figure was higher. Most of those executed were reportedly army officers, army deserters and draft resisters. Many others were executed for belonging to political parties actively opposed to the government. Among those reportedly executed in May 1983 were six Ayatollahs of the Al Hakim family (see above), 12 members from the Al Zawalem tribe from Samawa and Abdel Faraoun Hussain, a student from Basrah. Reports were also received that at least 11 named doctors were executed for their opposition to the government. Barzan Al Takriti, the head of the Intelligence Service and a half-brother of President Saddam Hussain was reportedly arrested in mid-October for allegedly plotting against the government. Press reports indicated that several army officers loyal to Barzan Al Takriti were executed in November on charges of plotting against the government. Amnesty International was seeking confirmation of the reports at the end of the year.

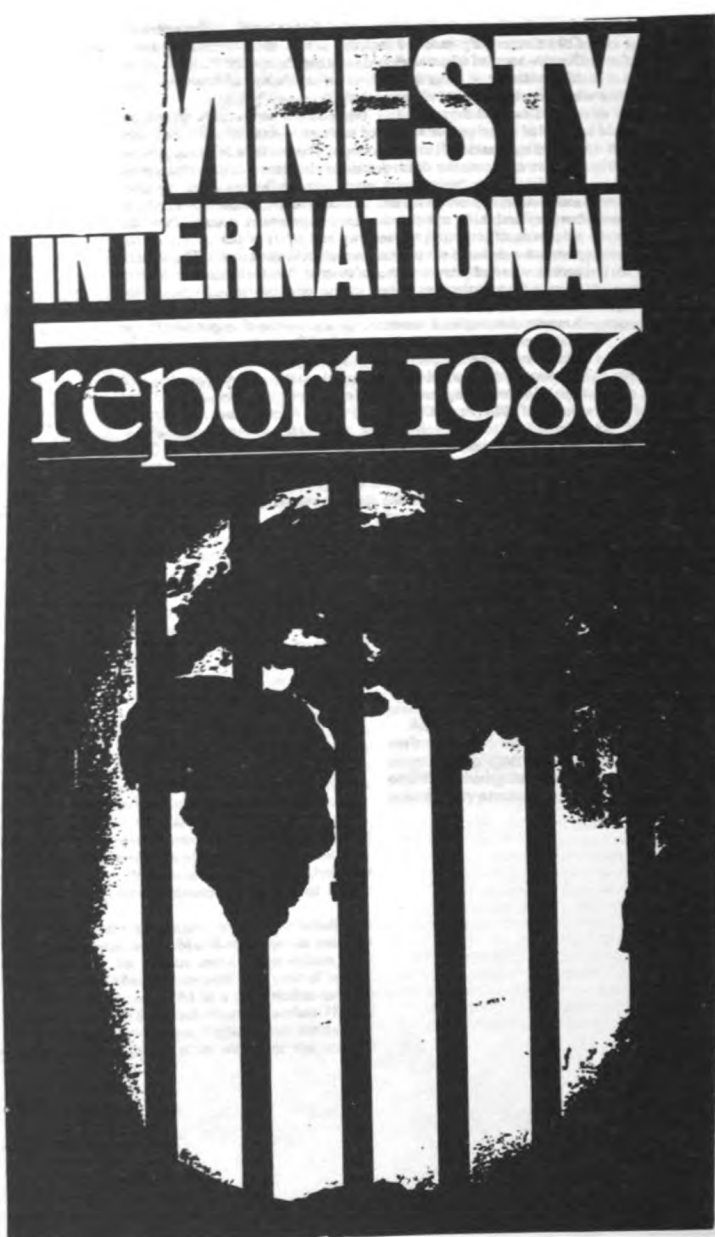
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war against Iran and officers accused of plotting against the government. Others reportedly executed included school and university students, Kurds - some of whom were said to be members of the Patriotic Union of Kurdistan - alleged members of *al-Da'wa al-Islamiyya* and individuals convicted of criminal offenses.

In June and July Amnesty International sent urgent appeals on behalf of seven people sentenced to death whose sentences had been ratified by President Hussain. Amnesty International urged the government to commute the death sentences. In response, the organization received in early November a letter from the Deputy Prime Minister and Minister of Foreign Affairs. Referring to five people found guilty of burglary and theft, and one convicted of desertion, it stated that "the exigencies of protecting the security and safety of our society do not permit the abolition or commutation of these sentences." The seventh person, who had been convicted of murder, "was sentenced to death in accordance with the laws in force in Iraq for murdering with premeditation . . . in compliance with Article 406/1/C of the Penal Code." Amnesty International reiterated its unconditional opposition to the death penalty in its reply at the end of December. It expressed its continuing concern about the long list of criminal and political offences carrying the death penalty in Iraq, and about the continued enactment of legislation increasing the number of capital offences. This included Law No. 32 of 1984 (Penal Code of the Popular Army), which made several offences by soldiers volunteering for military service punishable by death. The organization also noted with concern Revolutionary Command Council Resolution No. 1370, which reaffirmed the death penalty for various offences, including fleeing or defaulting from military service, conspiring against the state, espionage and joining *al-Da'wa al-Islamiyya*.





Iraq
During 1981 Amnesty
International received
reports of the arrest and detention of
suspected

government opponents, including possible prisoners of conscience; prolonged detention without trial, or after summary trial, of political prisoners; the torture and ill-treatment of detainees in the custody of the security forces; and the large number of judicial and extrajudicial executions.

In February Amnesty International received the government's comments on the entry on Iraq in the *Amnesty International Report 1984*. The government acknowledged the execution of six members of the Hakim family and of some army deserters, stating that "desertion from military service during wartime is a crime dangerous to the security and well-being of the country and is punishable by death in accordance with current legislation. Some of those who had committed this crime repeatedly and did not avail themselves of several amnesties were indeed executed." The letter denied all other allegations mentioned in the report, including those concerning torture, arrests, extrajudicial executions and "disappearances".

Despite these assurances Amnesty International continued to receive reports of widespread arbitrary arrests of suspected government opponents, and their detention for long periods without trial or imprisonment after summary trials by the Revolutionary Court following procedures which fell short of international standards. In a letter received on 8 July, the government stated that "... as soon as

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the authorities learn of the commission of a crime by a person, the judicial authorities start collecting evidence. The accused is then interrogated and referred to the competent court if there is sufficient evidence. . . . The accused is entitled to retain a lawyer and can be visited by a doctor and his family." However, Amnesty International believed that such procedures were often not followed, and prisoners' relatives have consistently testified over a number of years that they remained unaware of the fate and whereabouts of detained family members until they had either been released or executed. In many cases, families refrained from inquiring after detained relatives for fear of reprisals by the authorities.

Among those who continued to be detained during 1985 were suspected members or supporters of banned political parties, army deserters, draft resisters and student demonstrators. Many of them may have been prisoners of conscience detained for their non-violent political views or activities.

Relatives of people being sought by the government were also reportedly arrested as hostages. In one case, about 300 children aged between 10 and 14 were arrested in the town of Sulaimaniya in northern Iraq between late September and mid-October. They were apparently arrested in retaliation for the political activities of their relatives, said to be either army deserters or members of the *Pesh Merga* forces (armed Kurdish units). Some were reportedly being held as hostages to force their relatives to give themselves up to the authorities, and others to act as informers. They were said to have been held initially in a detention centre in Sulaimaniya, where some were allegedly beaten to extract information from them on the activities of the *Pesh Merga* forces and their supporters in the city. Three children reportedly died in custody as a result. Amnesty International was seeking further information at the end of 1985.

In April Amnesty International published a report, *Torture in Iraq 1982-1984*, a copy of which was sent to the government. The report listed 30 different methods of torture said to be used in Iraq, and contained extracts from five selected testimonies alleging torture between 1982 and 1984. One was from Neji Bennour, a Tunisian national (see *Amnesty International Report 1983*) and another from Robert Spurling, an American national. Both alleged that they had been tortured at the hands of the security forces in Baghdad. In both cases the findings of medical examinations were consistent with the torture alleged. The report also contained recommendations to the government for the prevention of torture. On 25 November the government replied, stating that Neji Bennour and Robert Spurling "had been arrested in accordance with regulations [and] were not subjected to any form of torture during their detention". Other

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allegations contained in the report were also denied. "We take this opportunity to confirm what we have demonstrated before, that there is no torture in Iraq." Amnesty International's recommendations were said to be "applied in Iraq on both legislative and practical levels. There is administrative and judicial supervision responsible for ensuring that these are properly implemented."

During 1985, Amnesty International continued to receive allegations of the routine torture and ill-treatment of detainees at all stages of their detention. Relatives of political prisoners were also allegedly tortured in their presence in order to force them into signing "confessions" or renouncing their political affiliations. A political prisoner released in April stated in his testimony to Amnesty International: "Members of my family, mother (73 years old), three sisters and three brothers with five children aged between five and 13 were arrested and brought in front of me. They were subjected to *falaja* beatings and electric shocks. Also my sister and mother were undressed and insulted in front of me."

After learning of the death in June of Sayyid Muhammad al-Sayyid Muhammad 'Ali al-Hakim, Amnesty International expressed its concern at allegations that he may have died under torture. His family had allegedly been told by official sources that he had fallen ill in prison and been transferred to hospital for treatment where he died. However, the body was reportedly not returned to his family although the victim's father was allowed to see it before it was removed for burial. Neither death certificates nor records of the alleged illness and medical treatment were reportedly made available to the family. Amnesty International submitted a report on the case to the UN Special Rapporteur on summary or arbitrary executions in July. On 25 November the government replied to Amnesty International, stating that there was no truth in the allegations.

Amnesty International also received reports that hundreds of political prisoners were being held in custody. However, it has insufficient information to confirm the exact number and names of the prisoners. It is also alleged that many of the prisoners have been carried out secretly in prisons and the victims' bodies subsequently buried by the authorities. When the victims' families were notified of executions, the bodies were usually returned to them with strict instructions not to mourn publicly and to bury them immediately. Some families were reportedly threatened with arrest or execution if they failed to obey these instructions.

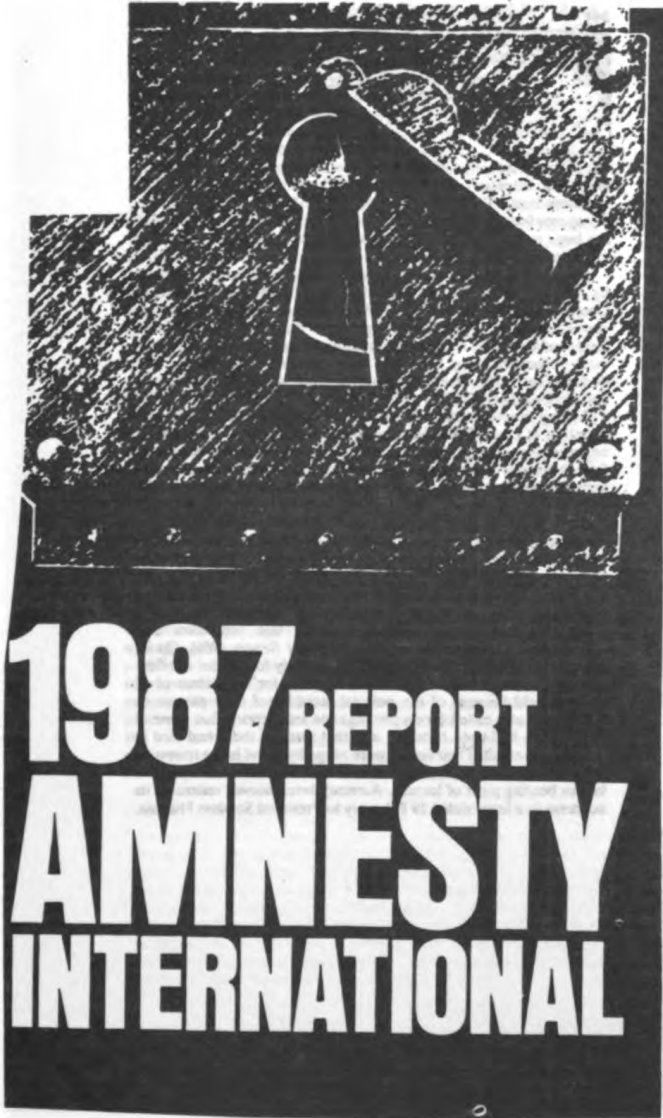
Amnesty International received several reports of the mass execution of prisoners without prior legal proceedings or following summary trials with no right of defence or appeal. Among the reported victims were army deserters and government opponents, including members of the Iraqi Communist Party (ICP), Kurdistan

Democratic Party (KDP), Kurdistan Popular Democratic Party (KPDP), Kurdistan Socialist Party-Iraq (KSP-I), Assyrian Democratic Movement (ADM) and *al-Da'wa al-Islamiyya* (Islamic Call). It also learned of political prisoners who were reportedly executed after having been sentenced to terms of imprisonment. On 31 March, 13 KPDP members were reportedly executed after having been sentenced by a revolutionary court in 1984 to 15 years' imprisonment each.

Amnesty International sent several urgent appeals to the government following the reported execution of 28 political prisoners in February and March. They were 15 KDP members, three ADM members and 10 members of the Hakim family. The organization submitted a report on these executions to the UN Special Rapporteur on summary or arbitrary executions in April. The government acknowledged in a letter to Amnesty International received on 25 July that 19 of these prisoners had been executed for committing, among other things, acts of sabotage and for carrying weapons and explosives. On 31 December Amnesty International once again appealed to the government after receiving reports that many political prisoners and army deserters had been executed between August and November, including 60 prisoners reportedly executed in Abu Ghraib Prison in the first week of November. Among them were said to be members of the KSP-I, KDP, ICP and *al-Da'wa al-Islamiyya*.

On 20 December Amnesty International urgently appealed to the government following reports that some 300 people had been killed in northern Iraq in the second half of October. According to the organization's information, 10 people were executed in Sulaimaniya on 14 October after two airforce officers were killed by Kurdish fighters in the area the same day. They were reportedly arrested, lined up outside a public bath and shot. The next day a curfew was imposed in the city and government troops, estimated at about 20,000, reportedly carried out house-to-house searches seeking army deserters, draft resisters, members of the *Pesh Merga* and other suspected opponents. Thirteen of those arrested on that day were also reportedly lined up and shot in a residential area of the city. Eight others were allegedly buried alive by security forces in the city's cemetery. Student demonstrations in Sulaimaniya and other cities protesting against these events were allegedly violently suppressed, with troops firing directly into the crowds. Unconfirmed estimates put the number of people killed in demonstrations and executed by firing-squad in Sulaimaniya at about 200. In Arbil, about 80 people were said to have died when the Citadel, where some of those being sought by troops were said to be hiding, was destroyed by aerial bombardment. Hundreds of others were reported to have been arrested in the same period, including whole families and a large number of army deserters. Their fate and whereabouts were not known.

Amnesty International was concerned





Iraq

Amnesty International's concerns continued to be the widespread arbitrary arrest and detention of hundreds

of political prisoners, including possible prisoners of conscience; the long-term detention of political prisoners without trial, or after summary trials; the routine use of torture by the security forces; "disappearances"; the increase in the number of capital offences and the large number of judicial and extrajudicial executions, including executions for political offences.

An amnesty was declared in April for certain prisoners sentenced by civil and military courts. Enacted by Revolutionary Command Council (RCC) Resolution No. 387, it did not extend to prisoners convicted of murder, adultery, espionage, drug offences and those sentenced to death. Amnesty International was unable to verify how many prisoners were released. In September an amnesty was declared for army deserters who had given themselves up to the authorities between 28 July and 6 August (RCC Resolution No. 675).

Among the hundreds who continued to be detained in 1986 were members of prohibited political parties; other suspected government opponents or critics; army deserters and draft resisters refusing to fight in the war against Iran; student demonstrators; and relatives of such people arrested as hostages in lieu of suspects sought by the government.

As in previous years Amnesty International received reports of widespread arbitrary arrests of suspected government opponents and innocent civilians, as well as allegations of torture and deliberate killings by government forces. The organization raised these concerns in a speech to the United Nations Commission on Human Rights on 11 March. It referred to the "disappearance" of about 300 Kurdish children arrested in Sulaimaniya between late September and mid-October 1985 (see *Amnesty International Report 1986*). On 20 January the organization had appealed urgently for official clarification of the reasons for their detention, calling for the release of all children held because of the political activities of their parents or relatives. It also called for an investigation into reports that some of the children had been tortured, and that three of them had died in custody as a result. Their bodies were allegedly found in the streets on the outskirts of Sulaimaniya, their clothes bloodstained and their bodies bearing signs of torture. Amnesty International reiterated its concerns in a letter dated 19 February to President Saddam Hussain.

On 25 April, the government responded by stating that it had "found such allegations totally false". Amnesty International also referred to reports of the killing of some 300 people in Sulaimaniya and Arbil in October 1985, and the arrest of hundreds of others whose fate and whereabouts were unknown (see *Amnesty International Report 1986*). The organization had sent urgent appeals in December of that year, and reiterated its concerns in its letter of 19 February 1986. In August Amnesty International received a response from Iraq's Ambassador to the United Kingdom in which he stated that "... the allegations were pure fabrication clothed with a figure and a venue to make them appear credible."

In late March and early April a large number of civilians, including students, were reported to have been arrested in Arbil, in northern Iraq, following an assassination attempt in March on the Governor of Arbil by Kurdish opposition forces. Fifteen students were subsequently executed (see below), and the others "disappeared". In July Amnesty International urged the authorities to release all those detained during these events unless they were to be charged. No response was received.

Amnesty International continued to be concerned about the routine torture and ill-treatment of detainees in the custody of the security forces. The victims included political prisoners tortured to force them to sign "confessions" or to renounce their political affiliations. Over the years the government had denied allegations of torture even when supported by detailed medical evidence. It had also failed to show that such allegations were ever investigated or that any perpetrators were brought to justice.

Some detainees were reported to have died as a result of torture, such as Tavar Salim Muhammad, an 18-year-old student and member of the banned Kurdistan Democratic Party (KDP). He was detained in October 1985 and was reported to have died under torture in July. Amnesty International called for an investigation into his death and into reports of the torture of two other KDP members before their execution in November. The bodies of Mahdi Ibrahim Muhammad and 'Abed Taha Ibrahim were returned to their families on 8 November; their fingernails had reportedly been extracted and their eyes gouged out.

Amnesty International appealed to the authorities on numerous occasions following reports of the execution of large numbers of people. The organization received reports that hundreds were executed during 1986 but it had insufficient information to ascertain the precise number. Among those executed were said to be army deserters, members of banned political parties, suspected government opponents and students. Many of them were said to have been

executed without trial or after summary trials by the Revolutionary Court with procedures which fell short of international standards. A number of people convicted of criminal offences were also executed during 1986.

On 3 January Amnesty International appealed to the government following reports of the execution of nine members of the banned Kurdistan Socialist Party-Iraq (KSP-I) in August and November 1985, as well as the execution in November 1985 of a KDP member. The government stated that in all three cases they were "... executed for their crimes including carrying out sabotage activities using explosives and weapons against the peace and security of innocent citizens. [They] were granted a fair trial where all judicial and legal measures were fully respected according to the Iraqi constitution and the laws in force, including the right to have court-appointed lawyers defending them." The government did not respond to the organization's additional appeals for an investigation into reports of the execution of large numbers of political prisoners and army deserters in Abu Ghraib and Mosul prisons in November 1985 (see *Amnesty International Report 1986*). On 13 February appeals were sent following reports of the execution of four KDP members and two students from the Technical Secondary School in Sulaimaniya in December 1985 and January 1986. No response was received. In December further appeals were sent following reports of the execution of five KSP-I members in August in Abu Ghraib prison and seven KDP members between August and November. Earlier in the year, nine other KDP members were reportedly executed in Mosul, Kirkuk and Baghdad. In its appeals, Amnesty International expressed fears for the lives of 16 other KSP-I members detained in Abu Ghraib prison who were said to be facing the death penalty.

Amnesty International also appealed on behalf of a number of people sentenced to death for criminal offences. On 27 May it appealed on behalf of a number of Egyptian workers sentenced to death for forging travel documents. On 3 June the organization learned that the death sentences passed on 10 Egyptians had been commuted. On 22 August Amnesty International received a letter from the Ministry of Foreign Affairs, stating that the 10 Egyptians were among a larger group arrested on charges of forging passports, residence cards and official stamps. The defendants had also been charged with smuggling currency abroad and economic sabotage. They were tried by a Revolutionary Court.

In October Amnesty International appealed to the authorities following the execution of seven Iraqis on charges of economic corruption. The seven, among them 'Abd al-Mun'im Hassan 'Alwan, under-secretary at the Ministry of Oil in Baghdad, were allegedly

involved in facilitating contracts for foreign companies in return for bribes. Neither the trial nor the executions were public. The death sentences were passed on 19 August and ratified by presidential decree on 31 August. In a letter to Amnesty International dated 11 November, Iraq's Ambassador to the USA stated that the executions "... took place in accordance with the penal code of Iraq [and] were carried out with full respect for the due process of law."

Amnesty International remained concerned about the continued enactment of legislation increasing the number of capital offenses. On 4 November Article 225 of the penal code was amended by RCC Resolution No. 840. The amendment prescribes the death penalty for publicly insulting the President of the Republic or deputy, the Revolutionary Command Council, the Arab Socialist Ba'ith Party, the National Assembly or the government with the intent of mobilizing public opinion against the authorities.

In July Amnesty International appealed following reports that 21 people had been killed in northern Iraq, whom the organization believed might have been extrajudicially executed. Fifteen of them were students from secondary schools and the University of Salah al-Din who were reportedly arrested and summarily executed in public in Arbil between 27 March and 3 April. In another incident, six detainees were reportedly summarily executed in public outside Sulaymaniyah Central prison on 9 April. The victims, sympathizers with the banned Patriotic Union of Kurdistan (PUK), were all said to be under 18. No response was received to the organization's appeals.

In late February Amnesty International appealed to the authorities following reports that two Iraqi students expelled from France on 19 February had been detained upon arrival in Iraq. Fawzi Hamza al-Ruba'i and Muhammad Hassan Khair al-Din had reportedly said they were afraid of returning to Iraq. Amnesty International requested details of their legal status and whereabouts and sought assurances that their safety would be guaranteed and that they would be permitted access to a lawyer and relatives. The organization also asked whether reports that one of them had been executed were true. On 4 March Amnesty International welcomed assurances from the Iraqi authorities that neither man had been executed. However, it remained concerned that they were detained and risked facing the death penalty. They allegedly belonged to *al-Da'wa al-Islamiyya*, Islamic Call, membership of which is a capital offence in Iraq. The organization urged the government to make known their whereabouts and the reasons for their arrest and continued detention. On 27 February Amnesty International also called upon the French Government to clarify the procedures followed which led to the involuntary expulsions, and urged it to obtain assurances from the Iraqi Government that the physical safety of the two men would be guaranteed. The French Government informed Amnesty International on 11 March that France's Ambassador to Iraq had visited the two men on 9 March and was able to confirm that they were both in good health. Fawzi Hamza al-Ruba'i and Muhammad Hassan Khair al-Din were pardoned by President Saddam Hussein on 13 March and released on 22 March. This was confirmed in a letter to Amnesty International on 1 August. Following their release, the two men announced on Iraqi television that they had "repented" of their past activities. They returned to France on 26 September.



IRAQ



Thousands of political prisoners, including prisoners of conscience, continued to be arbitrarily arrested and detained. Many were held for long periods without trial or following summary trials. The routine use of torture by the security forces continued to be widely reported, as was the "disappearance" of large numbers of people, many of whom were feared executed. Hundreds of executions were reported, the majority being extrajudicial executions. Among the victims were children and relatives of suspected government opponents being sought by the authorities.

An amnesty was declared at the end of November for Iraqis living abroad who had been convicted or suspected of political or criminal offences, including those sentenced to death. It did not extend to government opponents in Iraq. It was not known whether anyone took advantage of the amnesty.

Among the thousands of political prisoners were suspected critics of the government and members of various prohibited political parties, including al-Da'wa al-Islamiyya, Islamic Call; the Iraqi Communist Party (ICP); the Kurdistan Democratic Party (KDP); the Patriotic Union of Kurdistan (PUK); the Kurdistan Socialist Party - Iraq (KSP - I); and the Kurdistan Popular Democratic Party (KPDP). Others were army deserters and draft resisters refusing to fight in the war against Iran. A number of relatives of such people were also imprisoned as hostages, in lieu of suspects being sought by the authorities. Among them were two Kurdish children,

Jam'a and Lami 'Abd al-Baqi Taha, aged 13 and 14, who had been detained with their mother in 1985, apparently because of the activities of one of their relatives in the Kurdish opposition. Many of the prisoners were held without trial. Others were given summary trials by permanent or temporary special courts which fell short of international standards for a fair trial.

The routine torture and ill-treatment of prisoners continued to be widely reported. The victims included political prisoners who were tortured to force them to sign "confessions" or to renounce their political affiliations. Some political prisoners were reported to have been tortured shortly before being executed; for example, the bodies of 29 youths reported to have been executed without trial in early January were returned to their families bearing marks of torture. They had been among 300 Kurdish children and young people arrested in Sulaimaniya in 1985. Some were said to have had their eyes gouged out. One former detainee released in late 1985 from Fudailiyya Security Headquarters, where some of the youths are believed to have been held, said that a number of them had been beaten, whipped, sexually abused and tortured with electric shocks. Three were said to have been transferred to a military hospital and one to have died in his cell as a result of torture. The fate and whereabouts of over 250 children and young people from this group remained unknown following their "disappearance" in detention. Some may have been among over 150 detainees reported to have been executed in Abu Ghraib prison at the end of December.

Information was received during the year about the "disappearance" of 178 people arrested in Iraq between 1980 and 1985. The majority belonged to the Shi'a community and they included individuals whose families had been deported by the authorities to Iran because they were said to be of Iranian descent.

As in previous years, hundreds of people were reported to have been executed during 1987, but it was not possible to ascertain the precise number. Both judicial and extrajudicial executions were reported and most were carried out for political reasons. Those executed were said to have included members of banned political parties, other suspected government opponents, army deserters, students and

civilians arrested as hostages. Most were executed without trial or after summary and secret trials or, in some cases, after reportedly having been sentenced to periods of imprisonment.

Five officials who had been sentenced to death by Revolutionary Court in December 1986 had their sentences ratified by presidential decree in February. They included the former mayor of Baghdad, 'Abd al-Wahab Muhammad Latif al-Mufti. They had been convicted of accepting bribes from foreign companies operating in Iraq. It was not known whether the sentences were carried out.

Members of the Shi'a opposition were among those reported executed. Two theology students from al-Najaf - Sayyid Muhsin Sayyid 'Abbas al-Milani and Sayyid Hussain Sayyid 'Abbas al-Milani - were reported to have been executed on 9 January. Another student, Fair Haidar 'Ali Taki al-Haidari, was also reportedly executed in early 1987 on charges of sabotage. A theology teacher, Mahmud al-Dawalibi, was reported to have been executed with three other detainees in Abu Ghraib prison on 28 May.

Members of the Kurdish opposition and their relatives were also reported to have been executed, including 29 youths aged between 17 and 23 whose bodies were returned to their families in January (see Amnesty International Report 1987 and above). Two KDP members were publicly executed in Sersenk barracks on 19 August, and another was executed by firing-squad in Kirkuk prison in September. None had apparently been tried.

As many as 360 people were reported to have been executed in separate incidents in November and December. Most of the 116 known victims were Kurdish political prisoners from the provinces of Sulaimaniya, Arbil, Kirkuk, Duhok and Zakho. Among them were 17 children aged between 14 and 17. In one incident on 11 November, between 100 and 150 Kurds were reported to have been summarily executed by government forces after house-to-house searches. Their village, Jiman, in Kirkuk province, was bombed by the army after its inhabitants had returned, having earlier been forcibly evicted. Between 14 and 18 November, 32 Kurds from Shaglaw, in Arbil province, were reported to have been executed without charge or trial. They had been arrested

In October after Pesh Merga forces (armed Kurdish units) had killed eight Iraqi officials, including Shaqlawa's mayor. The fate of 30 other Kurds arrested in connection with the same incident was not known. On 13 November a KDP member was executed in Abu Ghraib prison. An assistant veterinary surgeon, 'Abd al-'Aziz 'Abdallah Othman, had been detained since 1986.

Thirty-one Kurds, said to be KDP sympathizers, were reportedly executed after summary military trials in Fa'ideh garrison on 18 November and 10 December, and in Mosul training camp on 28 December. In the last two days of December, more than 150 prisoners were reported to have been executed by firing-squad in Abu Ghraib prison. They included Arabs, Kurds and Turcomans, some of whom were sentenced prisoners. Among them were eight children aged between 14 and 17. Forty-six were from Sulaimaniya and at least 30 from Duhok.

At least 40 Kurdish opponents of the government were reported to have been poisoned in separate incidents by the security forces in late 1987. The poison used was thallium, a heavy metal commonly used as rat poison. On 24 November 10 Kurds aged between 14 and 60 were said to have been poisoned in the town of Merga, in Sulaimaniya province. The poison was said to have been put in a yoghurt drink by a security forces agent working at a PUK member's home. Three of the victims died within 10 hours of being poisoned. Three of the most seriously affected of the survivors were flown to the United Kingdom via Tehran for emergency treatment in December. They were Mustafa Qader Mahmoud and Sami Shorash, both PUK members, and 'Adnan al-Mufti, a KDP member. A consultant physician who treated them in London confirmed that they were suffering from acute thallium poisoning.

On 15 March the bodies of two Iraqi students were found in Karachi, Pakistan, with their heads severed and their fingertips cut off. Ni'ma Hamdi Muhammad and Sami 'Abd Mahdi had reportedly been suspected of involvement in the alleged assassination of an Iraqi diplomat in Karachi in September 1986. Both were said to be opponents of the Iraqi Government and had been recognized as refugees by the United Nations High Commissioner for

Refugees. An inquiry into their deaths was instituted by the Pakistani authorities, amid allegations that the two men were killed by agents working for the Iraqi Government. Its outcome was not known. An Iraqi diplomat was reported to have gone into hiding in Karachi after being sought by police in connection with the killings.

During 1987 Amnesty International intervened with the government on a number of occasions, appealing for the commutation of death sentences and expressing concern at reports of judicial and extrajudicial executions. It expressed concern at allegations that some of the victims had been tortured before being executed. It also called for the release of children and youths held because of the political activities of their parents or relatives. In September and December, the authorities commented on the information on human rights violations in Iraq contained in Amnesty International Report 1986 and 1987. The authorities said the 1986 report "consists basically [of] a summary of previous allegations [to] which the Iraqi authorities have replied". Referring to executions described in the 1987 report, the authorities said these "would not only be a matter dealt with by the law of any country, but... where the society of any country would be bound to defend itself the more strongly under certain conditions, such as when it is at war. One example is that of deserters from the Iraqi armed forces". In January the authorities confirmed the execution of seven people in 1986 for economic corruption (see Amnesty International Report 1987), stating that they had been "sentenced by a special court where all legal guarantees were made available according to the procedures and regulations in force. A lawyer was appointed to defend them. They... pleaded guilty openly, the court found their actions detrimental to the economic security of Iraq". In September the government also confirmed that seven Kurdish youths, about whom Amnesty International had inquired in January, had been executed because they "committed criminal and subversive acts using arms and explosives". It stated also that "being adults according to Iraqi laws, they were tried by a special court where all judicial and legal guarantees were fully respected, including the right to have a court-appointed lawyer to defend them". Another youth was said to have been "sentenced to life imprisonment due to his special case". Amnesty International had expressed concern about these executions in a speech before the UN Commission on Human Rights on 4 March, and had submitted details on their cases to the UN Special Rapporteur on summary or arbitrary executions.

Amnesty International Report 1989

"The most comprehensive of the organization's reports, *Amnesty International Report 1989* presents a stark challenge to the world's conscience and points the way to action in defense of the victims of human rights violations."

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This report documents Amnesty International's work and its concerns throughout the world during 1988. The absence of an entry in this report on a particular country does not imply that no human rights violations of concern to Amnesty International have taken place there during the year. Nor is the length of a country entry any basis for a comparison of the extent and depth of Amnesty International's concerns in a country. Regional maps have been included in this report to indicate the location of countries

and territories cited in the text and for that purpose only. It is not possible on the small scale used to show precise political boundaries, nor should the maps be taken as indicating any view on the status of disputed territory. Amnesty International takes no position on territorial questions. Disputed boundaries and cease-fire lines are shown, where possible, by broken lines. Areas whose disputed status is a matter of unresolved concern before the relevant bodies of the United Nations have been indicated by striping.

IRAQ



Large numbers of Kurds and other government opponents were extrajudicially killed by Iraqi Government forces. Among the victims were whole families, including children. Thousands of political prisoners, among them prisoners of conscience, continued to be arbitrarily arrested and detained. Many were held for long periods without trial or following summary trials. Torture of political prisoners remained widespread, as did the "disappearance" of large numbers of people, many of whom, it was feared, had been killed. Hundreds of people were reportedly executed; in most cases it was difficult to ascertain whether they had been tried and sentenced to death or extrajudicially executed.

In July the Iran-Iraq war came to an end. In the months before the ceasefire Iraqi Government forces had carried out a series of attacks on Kurdish civilians, including in areas in which the Kurdish armed opposition was active. In the weeks following the ceasefire there were similar sustained attacks on Kurdish civilians, thousands of whom fled Iraq to neighbouring countries.

In January an amnesty was declared for army deserters and for those who failed to report for military service, and in April there was a further amnesty for detainees convicted of certain economic and political offences and, under certain circumstances, of robbery and desertion from the army. Three amnesties were declared in September for detainees convicted of certain criminal and political offences, for all Iraqi Kurds sought for crimes committed before 6 September 1988, and for Egyptian nationals convicted of criminal offences excluding drug-trafficking and premeditated murder. In November a general amnesty was declared for those wanted for or convicted of political offences. It was not known how many people benefited from these amnesties.

Over 6,000 people, the majority unarmed civilians, were reported to have been deliberately killed by government forces and information was received about the deliberate killing of hundreds of others in 1987. Many were victims of extrajudicial execution; the great majority were Kurdish civilians, including whole families, killed as a result of large-scale military attacks on civilian targets. Amnesty International believed these killings were part of a systematic and deliberate policy on the part of the Iraqi Government to eliminate large numbers of Kurdish civilians, both as punishment for their imposed political sympathies and in retaliation for the activities of Kurdish opposition forces, which have included armed attacks on Iraqi Government targets.

Some 400 Kurdish civilians, among them women and children, were reported to have been executed on 2 April at Tuzjuro Military Garrison, Sulaimaniya province. The victims were said to have been

wounded as a result of chemical weapon attacks on villages in the Qaradagh region in March, and to have been apprehended as they made their way to the city of Sulaimaniya to seek medical treatment. Information was also received that in April 1987 some 380 people from the village of Shaikh Wasman, Arbil province, had been detained, reportedly after seeking medical treatment in hospitals in the city of Arbil for wounds inflicted as a result of chemical weapon attacks in the Balian Valley in mid-April 1987. The majority were civilians said to have "disappeared" after being moved to an unknown destination outside the city. There were allegations, which Amnesty International was unable to confirm, that they had been executed.

On 16 and 17 March an estimated 5,000 people were deliberately killed and thousands wounded as a result of chemical weapon attacks by Iraqi forces on the town of Halabja, Sulaimaniya province, reportedly after Kurdish opposition forces had entered the town. Most of the victims were civilians, many of them women and children. The government denied responsibility for the incident and stated that Iranian forces had carried out the killings. In August hundreds of unarmed Kurdish civilians were deliberately killed and thousands wounded when Iraqi Government forces attacked Kurdish villages in the north. Thousands of Iraqi troops were reported to have launched attacks using tanks, helicopter gunships, artillery and chemical weapons on hundreds of villages in the provinces of Duhok, Mosul and Arbil. The offensive came in the wake of the Iranian Government's acceptance of a ceasefire in its conflict with Iraq. On 28 August Iraqi Government forces reportedly entered several villages near the town of Duhok and arrested over 1,000 people, some of whom were suffering from wounds sustained in chemical weapon attacks. Those detained were allegedly summarily executed and then buried in mass graves nearby.

In late August and early September tens of thousands of villagers fled the affected areas to seek refuge in Turkey and Iran. On 1 September the Turkish Government announced that it would grant temporary refuge on humanitarian grounds to some 67,000 Kurdish civilians. The Iraqi Government denied that chemical weapons had been used against Kurdish civilians

and refused a United Nations team permission to travel to Iraq to investigate reports that such weapons had been deployed.

In January the Shi'a opposition leader Sayyid Mahdi al-Hakim was assassinated by a gunman in the lobby of the Khartoum Hilton Hotel, Sudan. The Sudanese authorities began an investigation into the killing amid allegations that Sayyid Mahdi al-Hakim was killed by an agent working for the Iraqi Government. According to a Sudan News Agency (SUNA) dispatch of 22 July, the investigation revealed that the escape car used by the gunman belonged to the Iraqi Embassy in Khartoum, and that eye-witness descriptions of the suspect implicated a diplomat at the embassy. The SUNA dispatch went on: "In view of this suspicion, the Public Prosecutor addressed a letter to the Iraqi Minister of Justice on 13th January 1988 requesting him to lift the immunity on the diplomat concerned so he could be interrogated." In February this request was refused and Iraq later recalled its Ambassador to Sudan in protest at the allegations.

As in previous years hundreds of executions were reported but it was not possible to ascertain the precise number. Those executed were said to have included members of banned political parties, other suspected government opponents, and army deserters. Many were reported to have been executed without charge or trial, among them five members of the Kurdistan Socialist Party-Iraq (KSP-I) executed in Arbil between November 1987 and January 1988. The bodies of four of them were returned to their families bearing marks of torture. The body of the fifth was allegedly buried secretly in a cemetery in Arbil. In December some 80 people were reported to have been executed in the Koi Sanjaq region of Arbil province. The majority of the victims were said to be army deserters arrested in mid-1988. It was not known whether they were brought to trial before execution.

Thousands of political prisoners, including possible prisoners of conscience, continued to be detained without charge or trial, or after summary trials. They included actual or suspected members of prohibited political parties such as al-Da'wa al-Islamiyya, Islamic Call; the Iraqi Communist Party (ICP); the Kurdistan Democratic Party (KDP); the Patriotic Union of Kurdistan (PUK); the Kurdistan

Socialist Party-Iraq (KSP-I); and the Kurdistan Popular Democratic Party (KPDP). Others included army deserters and draft resisters. Relatives of such people were arrested as hostages in lieu of suspects being sought by the authorities. The children of political opponents were also arbitrarily arrested and detained as hostages in order to compel their parents or relatives to "confess" to alleged political offences.

Mirza and Mardan Rasho, two brothers arrested in July 1985 in al-Shaikhan when they were aged six and 13 respectively, were believed still to be in detention at the end of the year. They were reportedly arrested because of their father's suspected membership of the Pesh Mergo forces (armed Kurdish units). In mid-December some 200 military personnel and Ba'ath Party officials were reportedly arrested, most in Baghdad and Mosul, on suspicion of plotting a coup. They included two brigadier generals - 'Abd al-Ghani Shahin and Taleb 'Ali al-Sa'dun. At the end of the year their fate was unknown.

Routine torture and ill-treatment of prisoners continued to be widely reported. The victims included political prisoners tortured in order to force them to sign "confessions" or to renounce their political affiliations. Some political prisoners were reported to have been tortured shortly before being executed. The victims included detainees below the age of 18, who were said to have been beaten, whipped, sexually abused, given electric shocks and deprived of food. According to the testimony of a former prisoner released from Abu Ghraib Prison in 1988, female prisoners have also been hung upside-down by the feet during menstruation. Objects have been inserted into the vaginas of young women, breaking the hymen. Another detainee released from Abu Ghraib in September testified that he was tortured during 14 months spent in detention. Arrested on suspicion of working with the KSP-I Pesh Mergo, he was allegedly beaten, given electric shocks and made to face a mock execution.

The fate of some 178 people who "disappeared" while they were in detention between 1980 and 1985 was still unknown at the end of the year (see Amnesty International Report 1988). Among them were 17 children aged between 12 and 17. Most belonged to Shi'a families from regions such as Baghdad, Karbala' and Najaf who

were declared by the authorities to be of Iranian descent. The fate of some 8,000 Kurds, among them 315 children, who "disappeared" following their arrest in August 1963, was still unknown. All were male members of the Barzani clan, arrested in Arbil and sent to unknown destinations. It was believed that the arrests had been carried out in retaliation for the KDP's military activities: the detainees included close relatives of Mas'ud Barzani, leader of the KDP. It was feared that many had been executed.

Amnesty International repeatedly appealed to the government for an end to the deliberate killing of unarmed Kurdish civilians. It also expressed concern about the imposition of the death penalty and about allegations that some of those executed had been tortured before their death. In January Amnesty International urged the government to investigate reports of the security forces' use of thallium poison against political opponents (see Amnesty International Report 1966). There was no response from the government on the poisonings but in press reports Iraq's Ambassador to the United Kingdom described the allegations as "false" and "bizarre". In August, the government replied to appeals by Amnesty International regarding the reported execution and deliberate killing of some 360 people - including 17 children - in November and December 1967 (see Amnesty International Report 1968). The government confirmed the execution of 12 people among the 116 victims whose names were submitted by Amnesty International. One of the 12 was 16-year-old Ribwar Muhammad Karim 'Aziz, a Kurd from Sulaimaniya who had been arrested when he was 13. He had been sentenced to death by a special court and executed in Abu Ghraib Prison in December 1967.

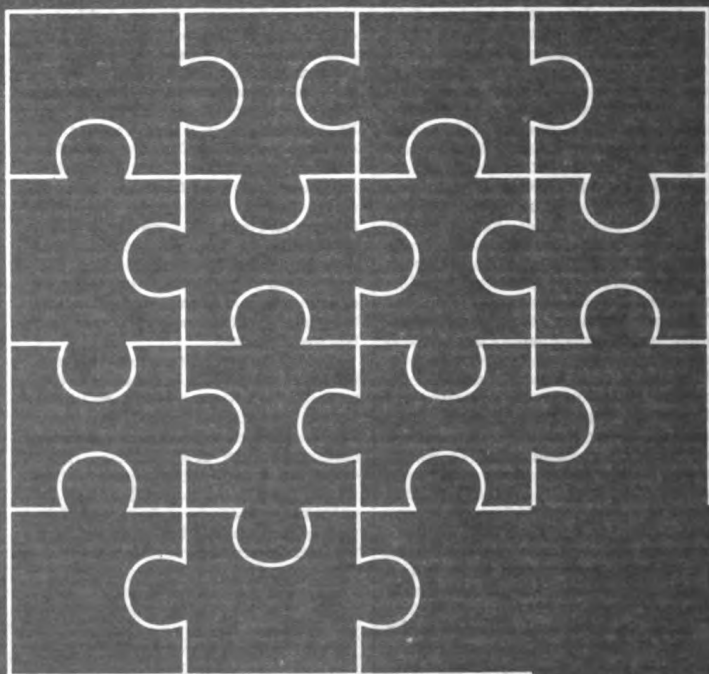
In an oral statement delivered to the United Nations Commission on Human Rights in March, Amnesty International drew attention to reports of the execution and deliberate killing by Iraqi forces of some 360 people in November and December 1967. In another oral statement delivered in August to the United Nations Sub-Commission on Prevention of Discrimination and Protection of Minorities, Amnesty International explained its concern about the deliberate and systematic killing of unarmed Kurdish civilians by

government forces. An Iraqi Government representative responded: "with respect to the town of Halabja, my delegation makes clear that this town was the site of military operations, and that it was occupied during these operations by Iranian troops which used various weapons, including chemical weapons, against its Iraqi civilian inhabitants".

In September Amnesty International appealed to the UN Security Council to act immediately to stop the massacre of Kurdish civilians by Iraqi forces. The appeal was issued following the reported killing of hundreds of unarmed civilians in Kurdish villages at the end of August. In October Amnesty International called on the Turkish Government to allow international protection for thousands of Iraqi Kurdish refugees in Turkey who had fled the August offensive. The call followed an Amnesty International fact-finding visit to refugee camps in southeastern Turkey in early October and reports that some refugees had been threatened with forced repatriation to Iraq. Some 1,800 Kurds were reported to have returned from Turkey to Iraq after the Iraqi Government's announcement of an amnesty for Kurds on 6 September. At the end of the year their fate was unknown.

In May Amnesty International submitted information about its concerns in Iraq to the United Nations procedure (under Economic and Social Council Resolutions 728F/1563) for confidentially reviewing communications about human rights violations. A copy of the communication was also sent to the Iraqi authorities with an invitation to comment. At the end of the year no response had been received from the Iraqi Government.

AMNESTY



1990

Amnesty International is a non-profit organization that works to secure the release of prisoners of conscience and to prevent torture and other human rights abuses.

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This report documents Amnesty International's work and its concerns throughout the world during 1989. The absence of an entry in this report on a particular country does not imply that no human rights violations of concern to Amnesty International have taken place there during the year. Nor is the length of a country entry any basis for a comparison of the extent and depth of Amnesty International's concerns in a country. Regional maps have been included in this report to indicate the location of countries

and territories cited in the text and for that purpose only. It is not possible on the small scale used to show precise political boundaries, nor should the maps be taken as indicating any view on the status of disputed territory. Amnesty International takes no position on territorial questions. Disputed boundaries and cease-fire lines are shown, where possible, by broken lines. Areas whose disputed status is a matter of unresolved concern before the relevant bodies of the United Nations have been indicated by striping.

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Thousands of political prisoners, among them prisoners of conscience, continued to be detained without charge or trial or imprisoned after trials which reportedly did not satisfy international fair trial standards. Torture of political prisoners remained widespread. "Disappearances" were reported and the government did not clarify the fate and whereabouts of thousands who "disappeared" in previous years. Many of the "disappeared" were believed to have been killed. Executions were also reported. Some of those executed apparently had sought from the authorities benefits announced under official amnesties. In most cases it was unclear whether they had received any form of trial.

In February the government of President Saddam Hussein announced plans to draft a new constitution and to promulgate laws authorizing new political parties and introducing press freedoms. The government also stated that the possibility of holding Iraq's first presidential elections was under discussion. Elections were held in April for the National Assembly and in September for the Kurdistan Autonomous Region's Legislative Council. By the end of the year the planned political reforms had not been introduced and reports of widespread abuses continued to be received.

In February a general amnesty was declared for Iraqis abroad accused or convicted of political offences, provided they returned to Iraq between 1 and 30 April. Under the terms of the amnesty, all legal proceedings against them would be dropped. Those considered "agents of the Iranian regime" were excluded from the amnesty. In April the terms of the amnesty were amended, allowing Iraqis to postpone their return if they informed the authorities of their wish to benefit from the amnesty. Some 60 Iraqi Kurds reportedly returned from Turkey in April. They were among tens of thousands of Kurds who fled Iraq following chemical weapon attacks by government forces in the northern Kurdish region in August 1988 (see *Amnesty International Report 1989*). Some of the Kurds may have been returned to Iraq involuntarily, according to reports.

A number of people who returned to Iraq following amnesty announcements in 1988 were reportedly arrested, tortured or executed in 1988 and early 1989. Some returnees "disappeared". It was not possible to confirm government claims that 92,000 people had returned to Iraq by March as a result of the amnesties.

Thousands of political prisoners, including people who may have been prisoners of conscience, continued to be detained without charge or trial, or after summary trials. They included suspected members of prohibited political parties such as the Kurdistan Popular Democratic Party (KPPD), the Kurdistan Democratic Party (KDP), the Patriotic Union of

Kurdistan (PUK), the Kurdistan Socialist Party-Iraq (KSP-I), the Iraqi Communist Party (ICP) and *al-Da'wa al-Islamiyya*, Islamic Call. Relatives of such suspects, including children, remained imprisoned while the authorities sought the suspects.

Political detainees held during the year included Mulla Muhammad Dalgawi, the Imam of the town of Qal'a Diza in Sulaimaniya Province. He was arrested in April soon after he and other Kurds met officials to appeal against government plans for forcibly resettling hundreds of thousands of Kurds and destroying Kurdish towns. There was no word of his fate or whereabouts until he was released without charge in August.

In September a British-based Iranian journalist, Farzad Bazoft, and a British nurse, Daphne Parish, were arrested in Baghdad on espionage charges. The arrests took place after Farzad Bazoft began investigating reports that hundreds of people had been killed in August in an explosion at a military plant south of Baghdad. The two detainees were held incommunicado for over six weeks and denied access to both consular representatives and legal counsel, giving rise to fears that they might be tortured. In October Farzad Bazoft appeared on Iraqi television and "confessed" to being an Israeli spy. Neither he nor Daphne Parish, who was said to be his accomplice, had been formally charged or tried by the end of the year.

Eight suspected members of the KCP, most of them engineers or students from Baghdad and Mosul, were reportedly arrested in late 1988 and in January. They included Athir Korkis, a graduate of al-Mustansariyya University, and Kifah Muhammad Kadhim, a social worker. Their fate and whereabouts remained unknown. The fate of some 200 military personnel and Ba'ath Party officials arrested in December 1988 also remained unknown. They were arrested in Baghdad and Mosul on suspicion of plotting a coup. According to unconfirmed reports, 18 of them had been executed. There was no news of other former Ba'ath Party officials reportedly arrested in the same period in Samarra. 'Abdallah Sellum al-Samarra'i, a former government minister, was among these detainees.

Routine torture and ill-treatment of prisoners reportedly continued. Information was received during the year about the

alleged torture of children and others arrested in previous years for political reasons. For example, eight school students aged between 13 and 16 were arrested in Sulaimaniya Province in May 1987 and reportedly tortured. They were detained without charge or trial for over 15 months, most of that time in Sulaimaniya Security Directorate. They allegedly suffered *jalapa* (beatings on the soles of the feet), beatings with metal cables while naked and suspended by the wrists from the ceiling, burnings with cigarettes, extraction of their finger-nails and electric shocks. In August 1988 they were brought before the Revolutionary Court and accused of anti-government activities, then released without conviction. In September 1988 Unconfirmed reports said that four of them had been rearrested in April.

Among those reportedly tortured in 1989 was a member of the KSE's *Pesh Merga* forces or armed Kurdish units. He was arrested in February after giving himself up to the authorities in order to benefit from the 30 November 1988 amnesty (see *Amnesty International Report 1989*). He alleged after his release that he was held without charge or trial for 37 days, initially in the Military Intelligence Directorate in Baghdad and then in Prison No. 1 in the al-Harithiyya District of the city. He and 22 others shared a cell in Prison No. 1 measuring 12 metres by 12 metres. They were repeatedly beaten by their guards, who denied one prisoner medical treatment when he suffered a broken wrist from the beatings.

"Disappearances" were reported during the year and thousands of prisoners who "disappeared" in previous years, including 178 members of Shi'a families and some 8,000 Barzani Kurds (see *Amnesty International Report 1989*), remained unaccounted for. In October Amnesty International received information that 353 Kurds arrested in August 1988 subsequently "disappeared" in custody. They were arrested in 'Amadiyya, Duhok Province, following chemical weapons attacks in the area by Iraqi government forces. Among them were 33 members of the KDP's *Pesh Merga* forces. The others were civilians, most of them farmers. They also included 52 children aged 11 to 17. They were initially held at the Qal'a, the "castle", in Duhok and apparently "disappeared" in early September 1988.

Thirty-three Assyrians who returned from Turkey and Iran in late 1988 and early 1989 to benefit from government amnesties also reportedly "disappeared". They included whole families from Duhok Province. A number of Kurds from Bahark resettlement camp outside Arbil city, who had been among some 2,000 Kurds who returned to Iraq from Turkey in 1988 following the 6 September 1988 amnesty, were said to have "disappeared" in custody. They included Arjan Mari Hassan, Alari Mari Hassan and Khalid Khulada, all alleged KDP supporters.

Hundreds of people were reportedly executed; in most cases it was difficult to ascertain whether they had received any form of trial. Reports received in March stated that at least 11 army deserters had been executed in the town of al-Amara in July 1988 and that 83 deserters had been executed in December 1988. In January, 14 army personnel and Bath Party officials arrested in December 1988 on suspicion of plotting a coup were reportedly executed. They included two brigadier-generals, 'Ala'uddin Hussain and 'Abd al-Ghani Shahin, and one general, Taleb 'Ali al-Sa'dun. Four others from this group were reportedly executed in July in Baghdad, among them Brigadier-General 'Abd al-Qader al-Shalawi and Lieutenant-Colonel Samir Sa'dallah.

Information received in February indicated that four members of an Assyrian family from 'Ain Kawa village in Arbil province had been killed between early September and mid-October 1988. The victims were Polous 'Aziz Sheba and Meska Wardina, husband and wife, and their two daughters, Hamama and Sabiha. They had lived in hiding after the execution of another member of their family, according to reports, but surrendered to the authorities shortly after the 6 September 1988 amnesty was announced. They were allegedly beheaded and their bodies, bearing marks of torture, were found in October 1988 on the Arbil-Mosul road.

Seven Kurds who sought to benefit from government amnesties were also executed in April in Diba garrison near Kirkuk, apparently because of their past links with the *Pesh Merga* forces. They included Sabar and Qader Sa'di, two brothers from the Qaradagh region in Sulaimaniya Province. Four other suspected Kurdish opponents of the government arrested in

1988 were executed in either March or April, three of them in Abu Ghraib Prison near Baghdad and one in Kirkuk following his trial by a military court. In January the government confirmed the execution in 1988 of two doctors, Isma'il Hassan al-Tatar and Hisham Maher al-Salman. It said they had been sentenced to death under Article 393/2/0 of the Penal Code for "the crime of raping patients inside their clinics while practising their medical profession". They were allegedly arrested after they made remarks regarding President Hussain at a private gathering in Baghdad. Their comments apparently had been tape recorded.

Amnesty International continued to express its concern throughout the year about use of the death penalty and about allegations that some of those executed had been tortured.

Amnesty International also expressed its concern about mass political killing in previous years, including the killing of minors. In February it appealed to the government to halt the politically motivated brutal treatment of children and young people. The organization published in February the names of 396 minors, both Arabs and Kurds, who had been detained without trial, imprisoned following summary trials, tortured, executed or had been the victims of extrajudicial executions since 1980. Among those cited in the publication, *Children: Innocent Victims of Political Repression*, were the cases of 21 youths who were aged between 14 and 17 when executed and at least 351 youths who "disappeared" while in detention. In March the government denied allegations of these abuses, including the execution in 1987 of 18-year-old Ribwar Muhammad Karim 'Aziz. The government had previously confirmed his execution (see *Amnesty International Report 1989*). The government also denied in March reports that some 200 army personnel and Ba'ath Party officials had been arrested in 1988 and that 14 of them had been executed in January.

In September and November Amnesty International appealed to the government to grant Farzad Bazoft and Daphne Parish legal and consular access and to ensure that they were protected from ill-treatment. It urged their immediate release unless they received a fair and prompt trial on recognizably criminal charges. By the end of the year no response had been received.

In an oral statement delivered to the United Nations Commission on Human Rights in March, Amnesty International drew attention to continuing human rights abuses, including deliberate killings and the torture and execution of political opponents and minors. An Iraqi Government representative said Amnesty International had launched a "premeditated endeavour...to deviate...world public opinion against Iraq". Amnesty International said in March that it was "deeply disturbed at the decision of the [Commission]...to take no action on the systematic and wide-ranging abuses in Iraq".

In an oral statement delivered in August to the United Nations Sub-Commission on Prevention of Discrimination and Protection of Minorities, Amnesty International expressed concern about the continued detention of Mulla Muhammad Dalgayi and the execution of Kurdish political opponents who had sought from the government benefits announced under official amnesties. An Iraqi Government representative responded by saying that Mulla Muhammad Dalgayi had been released and by denying that anyone had been executed after seeking benefits from an amnesty. Mulla Muhammad Dalgayi's release, which took place a few days before the government's response, was subsequently confirmed.

**Department of State Country Reports on
Human Rights Practices - Iraq
1988-1990**

COUNTRY REPORTS ON HUMAN RIGHTS PRACTICES FOR 1988

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AND

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IRAQ

Iraq is in effect a one-party state governed by the Arab Ba'ath Socialist Party (ABSP) through a Revolutionary Command Council (RCC) which has both executive and legislative authority under the provisional Constitution of 1968. Saddam Hussein holds decisive power as President of the Republic, Chairman of the Council, and Secretary General of the Regional Command of the ABSP. Two other legal parties are essentially support groups for the Government.

Iraq's population comprises many disparate groups, most notably Shi'a and Sunni Muslim Arabs, Kurds, Turcomans, and various Christian sects, predominantly Assyrians and Chaldeans.

Iraq's military is large and well trained, and parts of it have security responsibilities, notably the Pursan, or Kurdish tribal levies, which have responsibility for security within the Kurdish Autonomous Region. The national police is responsible for civil order. In addition, Iraq's intelligence services are widely feared, and have engaged in extensive surveillance and extralegal means to deal with entire regime activity, including torture and summary execution.

The Government exerts a high level of control over the economy, which is dominated by the petroleum sector. The state owns all major industries, including petroleum and banking. In agriculture, tourism, the services industry, and light industry, the Government is engaged in a program of divestiture and privatization. Close government regulation of economic activity will be maintained, but the Government is trying to attract investor capital and expertise in the operation of the economy.

Iraq's abysmal human rights record remained unacceptable in 1988. Political and individual rights continued to be sharply limited, and the news media remained largely under government control and subject to censorship. In addition to repressive domestic controls that predate the war with Iran, tight wartime controls remained in effect after the cease-fire. These included a decree which prescribes the death penalty for anyone who damages the country's military, political, or economic position. Wartime travel restrictions, which prevent most Iraqis from departing the country, also remained in force.

Most significant in 1988 were the grave human rights violations that occurred when the Iraqi armed forces moved to crush a longstanding Kurdish rebellion after the August 20 cease-fire with Iran. The campaign was marked by the use of chemical weapons against guerrillas and civilians alike. It marked an intensification of the program begun in 1987 to destroy villages and hamlets in Kurdish areas of northern Iraq, and to relocate approximately half a million Kurdish and Assyrian villagers to more easily controlled towns and cities. In addition, there are unconfirmed reports that tens of thousands of Kurds have been removed from their homes to camps located outside traditional Kurdish areas of northern Iraq.

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Execution has for years been an established method for dealing with perceived political and military opponents of the Government, particularly members of the outlawed Da'wa Organization (an Iran-supported fundamentalist Shi'a Muslim group that has engaged in acts of international terrorism). The Government has been accused of murdering Iraqi political opponents in the United Kingdom and Sudan; in the case of Sudan, the victim was a leader of the opposition Supreme Assembly of the Islamic Revolution in Iraq, based in Tehran and closely linked to the Da'wa Organization.

The Government's intensified efforts to crush a Kurdish rebellion in northern Iraq resulted in approximately 8,000 deaths, many of them civilians, according to Kurdish sources. The Iraqi armed forces made extensive unlawful use of chemical weapons against both military and civilian targets in Iran and Iraqi Kurdistan. In the course of a March 16 battle between Iraqi forces and Iranian Revolutionary Guards in and near the Kurdish city of Halabja in northern Iraq, an estimated 600 to 3,000 civilians were killed by Iraqi chemical weapons. The United States condemned Iraq's action as a particularly grave violation of the 1925 Geneva Protocol on chemical weapons, to which Iraq is a party, while noting that Iran also appears to have employed chemical weapons in the same battle. Several international teams, including a U.N. team and a team of Belgian doctors, confirmed the use of chemical weapons in this battle. Twice in 1988 the U.N. Security Council condemned use of chemical weapons in the Iran-Iraq War.

With the cessation of hostilities between Iran and Iraq in August, the Iraqi armed forces launched an offensive against Kurdish rebel forces. Combat troops from the Iranian front carried the battle to villages, which they claimed rebels were using for sanctuary.

On several days in August, chemical weapons were used in this campaign. Immediately thereafter, at least 60,000 Kurds fled across the border into Turkey. On September 8, the U.S. Department of State announced that it had conclusive evidence that Iraqi forces used chemical weapons unlawfully against Kurds and condemned its use. Since then, several groups, including a U.S. Senate staff delegation, Physicians for Human Rights, and a British laboratory that analyzed soil samples, confirmed Iraq's use of chemical weapons in this campaign. The Iraqis have denied using chemical weapons against Kurds.

In its 1988 Report, covering 1987, Amnesty International (AI) noted that at least 17 Kurdish children aged 14 to 17 were executed in November and December 1987. AI also reported the poisoning of Kurdish opponents in November 1987 by security forces.

b. Disappearance

Iraqi emigrants have reported that some persons, particularly those detained by the security police for subversion, disappear following detention. Kurdish rebels in northern Iraq have occasionally kidnapped foreign workers and businessmen. In its

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1988 Report, AI noted that the "disappearance" of large numbers of people continued to be widely reported, and that many of them were feared to have been executed.

c. Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment

The Constitution prohibits torture and prescribes stiff punishment for it, and the Government rejects charges that it practices torture. Nevertheless, reliable reports make clear that both physical and psychological torture are used by the authorities, especially the security police. Given the rigid chain of command within the Government and security services, torture could not be practiced without the authorization of senior officials.

According to emigre groups and former prisoners, persons detained by the security police for political or security-related matters are frequently tortured and mistreated. Treatment is reported to be worst immediately following arrest and during the period of interrogation and investigation, which can last for months. Torture and brutal treatment are not limited to political cases. Security-related offenses are broadly defined to include such routine criminal matters as currency violations.

The security forces' methods of torture, often employed to extract confessions or information about the suspect and his colleagues, reportedly include beatings with fists and rubber truncheons, electrical shocks to the genitals and other parts of the body, and the extraction of fingernails and toenails, as well as psychological torture. AI has reported that over the years the Government had denied allegations of torture even when the allegations were supported by detailed medical evidence and that the Government had also failed to show that such allegations were ever investigated or that any perpetrators were brought to justice. In its 1988 Report, AI noted that the routine use of torture by the security forces continued to be widely reported. It said that the victims included political prisoners, and cited a report that the bodies of 29 youths--who allegedly had been tortured shortly before being executed without trial in January 1987--were returned to their families bearing marks of torture. They had been among 300 Kurdish children and young people arrested in 1985.

d. Arbitrary Arrest, Detention, or Exile .

The Constitution and legal code provide for the rights of citizens and place checks on police powers in such areas as arrest, detention, imprisonment, and search. These provisions are generally respected in ordinary criminal cases, but have little weight in political or national security cases. Security police not only make arbitrary arrests but also secretly detain suspects, whose fate sometimes becomes known only after they have been executed. Security charges have included espionage, treason, and conspiracy against Iraq, often in collaboration with unnamed foreign foes.

As part of its campaign to eliminate the Kurdish rebellion and to clear a security zone along its northern border, the Government continued the policy of relocating, sometimes forcibly, several hundred thousand Kurds. While most were moved to or near Kurdish towns and cities south of the mountains, there are unconfirmed reports that others were

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exiled to non-Kurdish parts of the country. The campaign involved widespread destruction of Kurdish villages, and some Turcoman and Christian villages near the front lines.

In the past, Iraq has expelled to Iran large numbers of Iranians and Iraqis of supposed Iranian descent. These deportations ceased in the early 1980's; however, most of the few remaining Iranians have been imprisoned or live under the fear of deportation or incarceration. Spouses of Iraqis of Iranian origin are required to obtain a divorce or suffer the same consequences. Moreover, other Iraqis, whose grandparents are shown not to be of Iraqi origin, are subject to arbitrary detention and deportation. Assyrian religious groups in the United States alleged in 1987 that many Iraqi Assyrians were expelled to Turkey under this rule.

With regard to forced or compulsory labor, see Section 6.c.

e. Denial of Fair Public Trial

Iraq's legal system provides for investigation by police and then by an inquiry judge who may refer a case to the criminal court. A judge tries criminal cases; there is no jury. Convictions may be appealed to a court of cassation or, in the case of major crimes, the High Court of Appeals.

Trials of nonsecurity cases are held in civil, criminal, and religious courts and are open. Defendants are entitled to counsel. A lawyer is provided if a defendant cannot afford one. Charges and evidence are available for review. Appellate Courts hear cases not under the jurisdiction of the Revolutionary Courts. The Revolutionary Courts, which usually hold closed trials, deal with espionage, treason, smuggling, and drug trafficking. The right of defense in such courts is reportedly severely restricted.

The "special courts" constituted by the RCC for specific incidents, such as the reported conspiracy against the regime in 1979, are also closed. These special tribunals are apparently exempt from constitutional safeguards of defendants' rights; defendants are held incommunicado, and confessions extracted by torture are used. Appeals can be taken only to the Chairman of the RCC. However, the practical availability of this appeal is open to question, since there are reports that executions take place shortly after trial.

Political dissidence in Iraq is taken by the authorities to encompass a wide range of activities and, in an environment where public acknowledgment of arrest or imprisonment is rare, it is extremely difficult to estimate the number of political prisoners. In its 1988 Report, AI noted that "thousands of political prisoners" continued to be arbitrarily arrested and detained.

f. Arbitrary Interference with Privacy, Family, Home, or Correspondence

The Constitution provides protections for the inviolability of the home, and strong cultural values reinforce these protections. Police must obtain a search warrant before entering the home of a criminal suspect. However, warrants are not required for the arrest of security suspects. Although most arrests occur outside the home, there have been reports of forced entry and arrest by the security police, particularly of suspected members of the outlawed Da'wa

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Organization. As their campaign against Kurdish rebels intensified, government forces conducted large-scale searches of homes in Kurdish towns, and arrested and relocated large numbers of people.

There is no legal protection against the monitoring of telephones, which many Iraqis believe to be a common practice. All mail is believed subject to review by censors. The security services and the Ba'ath Party are generally assumed to maintain pervasive networks of informers.

Section 2 Respect for Civil Liberties, Including:**a. Freedom of Speech and Press**

These freedoms are not respected. The Constitution prohibits "any act aimed at undermining the national unity of the people, provoking racial, sectarian, and regional bigotry, or violating gains and achievements of the country," and the Government views political dissent as a security threat and strictly controls speech, all information media, and assembly. The Government owns and operates the press, radio, and television. The media do not criticize the Government, and news reporting is strongly biased. Opposition viewpoints are not heard. Few foreign periodicals reach Iraq, and Western newspapers are not sold. Foreign visitors' magazines, newspapers, cassettes, cameras, and video cassettes may be confiscated at the airport. To control the dissemination of political leaflets, typewriters and photocopying machines must be registered. Taking photographs of military installations, government buildings, or areas near sensitive locations is forbidden and punishable by imprisonment. Journalists and photographers visiting Iraq at the invitation of the Government are required to present film taken in Iraq for inspection by the authorities.

b. Freedom of Peaceful Assembly and Association

These freedoms are severely limited. Public meetings may only be organized under the auspices of the Government or the Ba'ath Party. Association for nonreligious purposes and demonstrations without government approval have met with severe repression. Professional organizations are subject to control by the Ba'ath Party Central Vocational Bureau.

For a discussion of freedom of association as it applies to labor unions, see Section 6.a.

c. Freedom of Religion

Iraq is an ethnically and religiously diverse society. However, many non-Muslims, principally Jews and Christians, left Iraq under previous regimes. Since its rise to power in 1968, the Ba'athist Government, while carefully controlling religious groups, has enforced tolerance of religious diversity, seeking to submerge religious differences in the promotion of secular nationalism. A 1981 law gave the Ministry of Endowments and Religious Affairs the authority to promulgate laws and regulations governing places of worship, appointment of clergy, religious literature, and participation in religious councils and meetings. Muslim religious leaders operate under close government supervision, are considered government employees, and receive their salaries through the Government. The Government administers the principal Muslim shrines and mosques and has increased allotments to refurbish

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and maintain them in an apparent attempt to win support from the devout.

While the Government has assumed much greater authority in Islamic religious affairs since 1981, the law has not been invoked against Iraq's Christian sects. Iraq's Christians number more than 500,000 and constitute nearly 4 percent of the population. Their freedom of worship in churches of established denominations is legally protected, but they are not permitted to proselytize or to hold meetings outside church premises. Convents and monasteries exist, and some new churches have been constructed, in some cases with government financial support. The Jewish community is believed to have decreased from 150,000 following World War II to under 400. It was severely persecuted in the past, but there is no evidence of recent persecution. One synagogue in Baghdad still functions.

d. Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation

Iraqis are generally free to travel within the country and to change their residences or workplaces. However they are likely to be constrained by social, cultural, and religious traditions which define the areas occupied by the various ethnic and religious groups. Sensitive border and other security areas are off-limits. Civilian travel in the war zone is restricted. Curfews are in effect where Kurdish insurgents have been active. There are police checkpoints on highways and outside major towns, but most Iraqis and foreigners travel freely in nonrestricted areas.

The Government's harsh campaign to suppress Kurdish rebels, involving mass relocations of Kurdish villagers, has nullified the right of hundreds of thousands of Kurds to choose their place of residence. An estimated 250,000 to 300,000 Kurdish villagers were forcibly relocated in 1988; since the Government began its program of forced relocation in 1987, an estimated 500,000 people have been uprooted. Since traditional Kurdish culture has been deeply embedded in the rural village, the forced removals and razing of villages has had a destructive impact on the lives of some half a million Kurds.

All Iraqis and most foreigners who remain in the country for more than 2 weeks must obtain exit permission. Travel has been even further limited since September 1986 when severe restrictions on currency exchange were imposed. Because of the war's drain on the economy, permission to travel abroad is restricted to a few categories of Iraqis, including officials, government-approved students, and persons needing medical treatment. While permission for medical treatment abroad may be granted, permission to transfer hard currency abroad to pay for it usually is not. The Government seeks to limit the countries an Iraqi traveler may visit and, should the traveler visit a nonauthorized country, a small fine may be levied upon his return. Iraqis who have residences abroad may depart the country provided they originally had left before the war began. In general, a married woman must have the permission of her husband to travel abroad.

The Government can require a prospective traveler to post a substantial bond to assure return. The RCC decreed in 1987 that Iraqi students abroad who refuse to return to Iraq must reimburse the Government for all education received in Iraq or abroad at government expense. The resolution is applicable

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retroactively to students who have refused to return since May 16, 1983, the day the Government began requiring those employees who left government jobs before completing the required 20 years of work to reimburse the State for the cost of their education. Amounts due can be recovered by confiscation; nonpayment may result in imprisonment. Each student must provide a guarantor before traveling abroad. This guarantor and the student's parents may be held liable if the student fails to return.

There is no specific ban on emigration or special restrictions for members of minority groups; however, emigration is discouraged. For the past several years, almost all of those given permission to emigrate have been spouses of foreign nationals. Prospective emigrants have had travel permission delayed and have been harassed. Many emigrants leave behind substantial property because of the difficulty of exporting assets. Currency exchange violations are considered national security offenses, and penalties can be severe.

Alien spouses of Iraqi citizens who have resided in Iraq for at least 5 years are required to become naturalized or leave Iraq. Many people, including several Americans, have thus been obliged to accept Iraqi citizenship and are therefore subject to the present travel restrictions. In March 1984, a resolution by the RCC reduced the residency period before naturalization to 1 year for the spouses of Iraqi citizens employed in government offices. The Iraqi spouse faces penalties for noncompliance, including loss of job, a fine of approximately \$10,000, and repayment of the costs of education. Iraq does not recognize the concept of dual nationality, and many Iraqi "dual nationals," especially the children of an Iraqi father and a mother of non-Iraqi birth, have been denied permission to leave Iraq to visit the country of their other nationality.

In recent years, the Government has instituted special programs to encourage the repatriation of qualified professionals. Aliens of Iraqi origin can apply for a document permitting them to enter and exit from Iraq without a visa. Former Iraqis can more easily obtain visitors' visas than can other aliens, who generally must have a sponsor.

Other persons of Iraqi origin are permitted to return, including many persons who were admitted to other countries as refugees. A number of such people, especially Assyrian Christians, have returned on temporary visits. They are free to come and go, within the limits of the present travel restrictions, since they are not considered to have violated Iraqi laws. However, those who emigrated only after the beginning of the Iran-Iraq War, including several U.S. permanent resident aliens, have been unable to depart Iraq after returning. AI reports that in November 1987 the Government declared an amnesty "for Iraqis living abroad who had been convicted or suspected of political or criminal offenses. It was not known whether anyone took advantage of it." In September the Government announced an amnesty for Kurds who fled the country during the August campaign. Approximately 1,400 returned from refugee camps in Turkey.

Section 3 Respect for Political Rights: The Right of Citizens to Change Their Government

Citizens do not have the right to change their government in Iraq. The Ba'ath Party, whose limited membership is dominated

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by the President and the party's Regional Command, rules Iraq. The party reportedly has some 1.5 million adherents, representing about 10 percent of the population; but only some 50,000 "active" or full members, less than 0.33 percent of the population, participate influentially in party activities. There are two other legal political parties, both Kurdish. They and the Ba'ath Party constitute the Patriotic and Progressive National Front, essentially a vehicle of support for the Government. The two minor parties carry on only limited activity. Members of the military or security services may engage in political activities only within the Ba'ath Party. Association with the party is not required for appointment to senior government positions or military ranks or election to the National Assembly, but is normally necessary to attain political influence. Opposition groups, including various Kurdish groups and splinter parties, are severely repressed. The Communist Party was removed from the National Front and declared illegal in 1979. The Da'wa Organization, a violent dissident Shi'ite group, is still proscribed, and its members are subject to incarceration and execution, as are members of other parties believed to be cooperating with Iran. The Government announced in November plans to permit the legal formation of opposition parties. However, this development is unlikely to have a major effect on the nature of the regime.

General elections were last held for the 250-seat National Assembly in 1984. The Government screened all the candidates for consonance with Ba'ath Party ideology. Though in theory possessing a wide range of official duties, the Assembly exercises little real authority. The most recent local elections were held in the Kurdish Autonomous Region in 1986. With the term of the National Assembly having expired, elections are scheduled for March 1, 1989.

Section 4 Governmental Attitude Regarding International and Nongovernmental Investigation of Alleged Violations of Human Rights

Iraq denies charges that it violates human rights. Iraqi officials claim that the information on which AI and other human rights groups base their charges comes from pro-Iranian and Kurdish Iraqi exile groups in London and Paris. In its 1988 Report, AI noted several instances in 1987 in which Iraqi authorities had commented on AI reports or responded to AI inquiries, but in each case these authorities had defended their actions as justifiable. Iraq refused to permit any independent investigation, including one under U.N. auspices, of charges related to the use of chemical weapons in its campaign to suppress Kurdish rebels. Iraq adamantly denied such use.

There is no government office or official charged with investigating human rights and coordinating with other governments and international organizations on human rights. Iraq cooperates with the International Committee of the Red Cross in efforts to resettle Iranian civilian refugees in third countries. The U.N. High Commissioner for Refugees (UNHCR) in previous years sent several representatives to Iraq for brief periods to register refugees and to work for their resettlement. A UNHCR representative has been in Baghdad since April 1988.

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IRAQ**Section 5 Discrimination Based on Race, Sex, Religion, Language, or Social Status**

The Ba'ath Party has been committed to the equality of the sexes, and a series of laws since it came to power in 1968 has steadily improved the status of women. Such laws have protected women from exploitation in the workplace; granted subsidized maternity leave; permitted women to join the regular army, Popular Army, and police forces; and equalized women's rights on divorce, land ownership, taxation, suffrage, and election to the National Assembly. In the 1970's, the Government imposed legal penalties on families that opposed sending their women to literacy schools, and on men who were seen harassing women. However, women may still travel abroad only with the permission of their husbands. School enrollment of females has been increasing in recent years, reaching 45 percent in elementary schools and 36 percent in secondary schools in 1985-86.

Women represent about 47 percent of agricultural workers and about 25 percent of the total work force. The war accelerated the Government's drive to elevate the status of women, and some Iraqis believe it has permanently broken cultural barriers to the acceptance of women in traditional male roles. Women have become increasingly visible as architects, construction engineers, oil engineers, air traffic controllers, factory and farm managers, and Air Force pilots. Some 40,000 women were reportedly volunteers in the Popular Army in 1982.

The use of minority languages is unrestricted. Kurdish, an official language, is used in schools and media in Kurdish areas. Turcomans publish in their dialect of Turkish. The Shi'a, who make up roughly 55 percent of the population, have historically been economically, politically, and socially disadvantaged throughout the Middle East. The Government has a declared policy to raise their living standards and equalize opportunities for their economic and professional advancement. For four centuries, political power in Iraq has been concentrated in the hands of the Sunni minority. Sunni Arabs, who comprise 20 to 25 percent of Iraq's population, dominate the RCC, the Regional Command of the Ba'ath Party, and the Cabinet. However, many Shi'as hold prominent positions, and the economic status of the Shi'a has improved. Nevertheless, the Government maintains a close watch against Iranian attempts to exploit dissatisfaction among the Iraqi Shi'a, who adhere to the branch of Islam prevalent in Iran.

Although Christians sometime allege discrimination in education and jobs, adherence to their religion has not prevented many from obtaining wealth and professional advancement. The Deputy Prime Minister and Foreign Minister, a Chaldean Christian, has represented Iraq even at meetings of the foreign ministers of the Organization of the Islamic Conference. Other Christians hold important official and private positions. Citizens considered to be of Iranian origin carry special identification, and they are often precluded from desirable employment and their advancement may be impeded. Many "Iranian" families have been in Iraq for generations. Some say their forebears were not from Iran but claimed Iranian nationality to evade Ottoman military conscription.

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IRAQ**Section 6 Worker Rights****a. The Right of Association**

Industrial workers do not constitute a significant part of the total work force, whose principal components are agricultural workers, shopkeepers, and government employees. Under the Trade Union Organization Law of June 2, 1987, a new single trade union structure was prescribed for organized labor. Workers in private and mixed enterprises and in cooperatives--but not public employees or workers in state enterprises--have the voluntary right to join a local trade union committee. The trade union committees form trade unions which in turn are part of provincial trade union federations. At the top is an umbrella organization, the Iraqi General Federation of Trade Unions, which is organically linked to the Ba'ath Party and required to promote party principles and policies among union members. The General Federation is affiliated to the International Confederation of Arab Trade Unions and to the Soviet-controlled World Federation of Trade Unions. It is also active in the tripartite Arab Labor Organization which is currently headquartered in Baghdad.

Although workers legally have the right to strike, after providing notice to the Labor Ministry, no strikes have been reported for almost 20 years.

b. The Right to Organize and Bargain Collectively

Even before the abolition of the Labor Federation, the right to bargain collectively was not recognized. Labor legislation and practice is uniform throughout the country. There are no export processing zones in Iraq.

c. Prohibition of Forced or Compulsory Labor

The Popular Army, the militia of the Ba'ath Party, employs press-gang methods to draft recruits. It sets up roadblocks and inducts eligible men on the spot; they are sometimes not allowed to contact their families for weeks afterwards. Popular Army personnel perform duties in rear areas, freeing regular army personnel for front line duty; they also perform many functions, such as reconstruction work, which would normally be done by the civilian labor force. However, on October 30 the Government announced that the Popular Army would cease recruiting drives and begin to release Popular Army inductees who were currently in training camps. There has been no evidence of recruiting into the Popular Army since this announcement, and measures are under way to significantly reduce its size.

d. Minimum Age for Employment of Children

Children are frequently encouraged to work as necessary to support the family, a common social practice in the Middle East. The employment of children is forbidden in all enterprises other than small-scale family enterprises.

e. Acceptable Conditions of Work

The workweek in urban areas is 6 days, 7 to 8 hours a day, for workers in the private sector. Hours for government employees are set by the head of the ministry for which the employee works. Many government employees routinely work longer than 8 hours a day, some of them as much as 12 hours per day. Wages

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are set by the Government for public sector workers (i.e., the bulk of the employed) and do not adhere to any fixed per hour or per day rate; salaries are generally deemed low but adequate. Wages in the small private sector are set by supply and demand. Occupational safety programs are in effect in state-run enterprises, and inspectors make irregular visits to private establishments; enforcement varies widely. A new government decree to extend occupational safety and health protection was issued and subsequently withdrawn in December 1988, reportedly leading to the dismissal of the Labor Minister.

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COUNTRY REPORTS ON HUMAN RIGHTS PRACTICES FOR 1989

REPORT

SUBMITTED TO THE

**COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES**

AND THE

**COMMITTEE ON FOREIGN RELATIONS
U.S. SENATE**

BY THE

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Iraq is in effect a one-party state governed by the Arab Ba'ath Socialist Party (ABSP) through a Revolutionary Command Council (RCC) which has both executive and legislative authority under the provisional Constitution of 1968. Saddam Hussein holds decisive power as President of the Republic, Chairman of the RCC, and Secretary-General of the Regional Command of the ABSP. Two other small parties are essentially support groups for the Government. In 1989 the Government announced its intention to adopt a multiparty system enshrined in a new constitution. Elections for the National Assembly--which has few powers--were held April 1. A draft constitution which would reportedly allow a multiparty system was completed in 1989 and is expected to be put to a referendum in early 1990. It remains to be seen, however, whether this will dilute the monopoly of power held by Saddam Hussein and the ABSP. Iraq's population comprises many disparate groups, most notably Shi'a and Sunni Muslim Arabs, Kurds, Turcomans, and various Christian sects, predominantly Assyrians and Chaldeans.

Iraq's military is large and well trained, and parts of it, notably the Pursan, or Kurdish tribal levies, have responsibility for security within the Kurdish autonomous region. The National Police is responsible for civil order.

The Government exerts a high degree of control over the economy, dominated by the petroleum sector, and owns all major industries. The Government has been carrying out a program of divestiture and privatization in agriculture, tourism, services, and light industry, and is trying to attract investor capital and expertise in the operation of the economy. However, close government regulation of economic activity is expected to continue.

Iraq's human rights record remained abysmal in 1989. Effective opposition to government policy is stifled; the intelligence services engage in extensive surveillance and utilize extralegal means, including torture and summary execution, to deal with antiregime activity. The civil rights of Iraqi citizens continue to be sharply limited, and Iraqis do not have the right to change their government. The freedoms of speech and press and of assembly and association are virtually nonexistent. Other important human rights problems include continuing disappearances and arbitrary detentions, lack of fair trial, widespread interference with privacy, excessive use of force against Kurdish civilians, and an almost total lack of worker rights. In addition to the repressive domestic controls that predate the war with Iran, tight wartime controls, including travel restrictions, remain in effect despite the August 1988 cease-fire with Iran.

An armed Kurdish insurgency continued in 1989, but at a reduced level. Although there were no allegations that the Government used chemical weapons against Kurdish civilians in 1989, as it did in 1988, in its efforts to crush the rebellion, it continued to violate the human rights of elements of the Kurdish population. The Government announced in June that in its campaign to suppress the rebellion it has pursued a program since 1987 of establishing a depopulated security zone along the full length of Iraq's borders with Iran and Turkey. Under this program, the Government has destroyed villages within a 30-kilometer-wide zone and relocated approximately 500,000 Kurdish and Assyrian inhabitants into more easily controlled and protected towns.

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cities, and newly constructed settlements in traditional Kurdish areas.

RESPECT FOR HUMAN RIGHTS**Section 1 Respect for the Integrity of the Person, Including Freedom from:****a. Political and Other Extrajudicial Killing**

For years execution has been an established Iraqi method for dealing with perceived political and military opponents of the government, including, but not limited to, members of the outlawed Da'wa organization (an Iran-supported fundamentalist Shi'a Muslim group that has engaged in acts of international terrorism). In some cases, a family only learns that one of its members has been executed when the security services return the body and require the family to pay a fine.

Amnesty International (AI), in its presentation before the U.N. Subcommittee on the Prevention of Discrimination and Protection of Minorities in August, stated that it had received allegations that some 80 army deserters were executed in December 1988 and charged that the Government executed 11 of its Kurdish opponents in March and April 1989.

In its February report, "Iraq: Children: Innocent Victims of Political Repression," AI stated that it receives allegations of hundreds of executions in Iraq each year. AI cited the case of 29 Kurdish children and youths allegedly executed in January 1987. In addition, AI, in its 1989 Report covering 1988, cited allegations that hundreds of civilians, including women and children, were executed at Tanjero Military Garrison, Sulaimaniya province. Independent information to confirm the allegations cited in AI reports is not available.

b. Disappearance

In the February report, AI asserted that thousands of people arrested over the years by Iraqi security or intelligence forces reportedly have "disappeared" while in detention, with many feared executed. In its August presentation to the U.N. Subcommittee, AI reported the disappearance in mid-April of Mulla Muhammad Dalgayi, described as the imam of Qal'at Diza, who was among delegates from Kurdistan who reportedly met with government officials to appeal against forced settlement of the Kurds at Qal'at Diza. He was reportedly arrested in Baghdad and has since disappeared. An Assyrian organization based in the United States charged in March that the whereabouts of 33 Assyrians, who took advantage of the amnesty issued by the Government and returned to Iraq from Iran and Turkey, were unknown.

c. Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment

The Constitution prohibits torture and prescribes stiff punishment for it, but it is clear that both physical and psychological torture are used by the authorities, especially the security police. Given the rigid chain of command within the Government and the security services, torture could not be practiced without the knowledge or authorization of senior officials.

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Emigre groups and former prisoners assert that persons detained by the security police for political or security-related matters are frequently tortured and mistreated. Treatment is reported to be worst immediately following arrest and during the period of interrogation and investigation, which can last for months. Torture and brutal treatment are not limited to political cases.

Security-related offenses are broadly defined and include such routine criminal matters as currency violations.

In its 1989 Report, AI stated that the routine torture and ill-treatment of prisoners continued to be widely reported. It said the victims included detainees below the age of 18 who were reportedly beaten, whipped, given electric shocks, and deprived of food. The Government categorically denied any use of torture against children as an official policy or as a practice, and stated its readiness to consider fully any individual allegation with a view to bringing perpetrators to justice. Impartial observers have so far been unable to look into these allegations.

d. Arbitrary Arrest, Detention, or Exile

While the Constitution and legal code provide for the rights of citizens and place checks on police powers in such areas as arrest, detention, imprisonment, and search, these provisions have virtually no weight in political or national security cases, although they are generally respected in ordinary criminal cases. Security police not only make arbitrary arrests but also secretly detain suspects, whose fate sometimes becomes known only after they have been executed. Security charges have included espionage, treason, and conspiracy against Iraq, often in collaboration with unnamed foreign enemies.

The relocation of 500,000 Kurdish villagers to other areas of Kurdistan since 1987 may be considered a form of internal exile. The Government declared in June 1989 that it was creating an uninhabited security zone to ensure the safety and security of citizens in the border regions (who were subjected to shelling and military operations during the war with Iran) and to provide better services to the villagers.

Although the Government has ceased expelling Iraqis of supposed Iranian descent, most of the few remaining Iranians have been imprisoned or live under the fear of deportation or incarceration. Spouses of Iraqis of Iranian origin are required to obtain a divorce or suffer the same consequences. Moreover, other Iraqis, whose grandparents are shown not to be of Iraqi origin, are subject to arbitrary detention and deportation.

With regard to forced or compulsory labor, see Section 6.c.

e. Denial of Fair Public Trial

Iraq's legal system provides for investigation by police and then by an inquiry judge who may refer a case to the courts or dismiss it. Judges try criminal cases; there are no juries. Convictions may be appealed to the Court of Appeal and then to the Court of Cassation, the supreme court. There are no Shari'a courts per se in Iraq; however, family courts administer Shari'a law modified by Iraqi custom.

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Trials of ordinary cases are held in civil, criminal, and religious courts and are open. Defendants are entitled to counsel--at government expense if the defendant is indigent. Charges and evidence are available for review by the lawyer. Appellate courts hear cases not under the jurisdiction of the Revolutionary Courts.

In contrast to ordinary cases, security cases are handled by the Revolutionary Courts, which usually hold closed trials. Security cases include espionage, treason, smuggling, currency exchange violations and drug trafficking. The right of defense in such courts is said to be severely restricted. The "special courts" constituted by the RCC for specific incidents, such as the reported conspiracy against the regime in 1979, are also closed. These special tribunals are apparently exempt from constitutional safeguards of defendants' rights; defendants are held incommunicado, and confessions extracted by torture are admissible. Appeals can be taken only to the chairman of the RCC. However, the utility of this appeal is questionable, since there are reports that executions take place shortly after trial.

Political dissent in Iraq is taken by the authorities to encompass a wide range of activities and, in an environment where public acknowledgement of arrest or imprisonment is rare, it is extremely difficult to estimate the number of political prisoners. In its 1989 Report, AI stated that "thousands" of political prisoners continued to be arbitrarily arrested and detained, especially members of prohibited political parties, Army deserters, and draft resisters. Relatives, including children of suspects, are said to be held as hostages to compel confessions.

f. Arbitrary Interference with Privacy, Family, Home, or Correspondence

The Constitution provides protections for the inviolability of the home, and strong cultural values reinforce these protections. Police must obtain a search warrant before entering the home of a criminal suspect. However, warrants are not required for the arrest of security suspects. Although most arrests occur outside the home, there have been reports of forced entry and arrest by the security police, particularly of suspected members of the outlawed Da'wa organization.

Although the Constitution provides for the confidentiality of mail and telegraphic and telephone correspondence, many Iraqis believe that the monitoring of telephones is a common practice and that all mail is subject to review by censors. The security services and Ba'ath Party maintain pervasive networks of informers. The Government maintains a close watch against Iranian attempts to exploit dissatisfaction among Iraqi Shi'a, who adhere to the branch of Islam prevalent in Iran.

g. Use of Excessive Force and Violations of Humanitarian Law in Internal Conflicts

Elements of Iraq's Kurdish population have engaged in armed struggle with all governments of Iraq periodically since the 1920's. The outbreak of the Iran-Iraq war in 1980 sparked a new antigovernment insurgency by Kurdish elements, many of whom fought with or aided Iran during the war. From 1981 to 1989, the Government's efforts to crush the rebellion militarily resulted in approximately 8,000 deaths, many of

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them civilians killed indiscriminately by chemical weapons in 1988.

Although the fighting was at a reduced level in 1989, Kurdish military operations continued, as did government measures to contain them. Kurdish rebels continued to announce their hostility towards the central Government. On August 29, 1989, the leader of one group of insurgents stated to the press in Geneva that his group would target foreign interests in Iraq supporting the Iraqi regime. At year's end, the cycle of Kurdish rebellion and government repression remained unresolved.

Section 2 Respect for Civil Liberties, Including:

a. Freedom of Speech and Press

The freedoms of speech and press are not respected. The Constitution prohibits "any act aimed at undermining the national unity of the people, provoking racial, sectarian, and regional bigotry, or violating gains and achievements of the country." The Government views political dissent as a threat to its security and strictly controls speech and all information media. All publications are subject to censorship. The Government and the Ba'ath Party own and operate the press, radio, and television. The media do not criticize the Government, and news reporting is strongly biased. There is no presentation of opposition viewpoints.

Few foreign periodicals reach Iraq and those that do may be censored. Western newspapers are not sold. Foreign visitors' magazines, newspapers, cassettes, cameras, and video cassettes may be confiscated at the airport. To control the dissemination of political leaflets, word processors and computers must be registered. Failure to register is a criminal offense. Iraqis no longer need to register their typewriters or photocopiers, but foreigners in Iraq must do so. Taking photographs of military installations, government buildings, or areas near sensitive locations is forbidden and punishable by imprisonment. Journalists and photographers visiting Iraq at the invitation of the Government are required to present film taken in Iraq for inspection by the authorities.

b. Freedom of Peaceful Assembly and Association

These freedoms are severely limited. Public meetings may only be organized under the auspices of the Government or the Ba'ath Party. Association for nonreligious purposes and demonstrations without government approval have met with severe repression. Professional organizations are subject to control by the Ba'ath Party Central Vocational Bureau.

For a discussion of freedom of association as it applies to labor unions, see Section 6.a.

c. Freedom of Religion

Iraq is an ethnically and religiously diverse society. Since its rise to power in 1968, the Ba'ath Government, while carefully controlling religious groups, has enforced tolerance of religious diversity, seeking to submerge religious differences in the promotion of secular nationalism. A 1981 law gave the Ministry of Endowments and Religious Affairs the authority to promulgate laws and regulations governing places

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of worship, appointment of clergy, publication of religious literature, and participation in religious councils and meetings. Muslim religious leaders operate under close government supervision, are considered government employees, and receive their salaries through the Government. The Government administers the principal Muslim shrines and mosques and has provided allotments to them and to churches for maintenance and refurbishing. There are no penalties under Iraqi law for changing one's religion, although there is a social stigma for Muslims who convert to another faith.

While the Government has assumed much greater authority in Islamic religious affairs since 1981, it has been less intrusive into the religious affairs of Iraq's Christians, who number more than 500,000 and constitute nearly 4 percent of the population. Their freedom of worship in churches of established denominations is legally protected, but they are not permitted to proselytize or to hold meetings outside church premises. Convents and monasteries exist, and some new churches have been constructed, in some cases with government financial support. The Jewish community has decreased from 150,000 following World War II to under 400. There is no evidence of recent persecution. One synagogue in Baghdad still functions.

d. Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation

Iraqis are generally free to travel within the country and to change their residences or workplaces. However, they are likely to be constrained by social, cultural, and religious traditions which define the areas occupied by the various ethnic and religious groups. Sensitive border and other security areas are off limits. There are police checkpoints on highways and outside major towns, but Iraqis and nondiplomatic foreigners travel freely in nonrestricted areas.

The Government's harsh campaign to suppress Kurdish rebels, involving mass relocations of Kurdish villagers, has nullified the right of hundreds of thousands of Kurds to choose their place of residence. Since the Government began its program of forced relocation in 1987, an estimated 500,000 people have been uprooted. Since traditional Kurdish culture has been deeply embedded in the rural village, the forced removals and razing of villages has had a destructive impact on the lives of some half a million Kurds.

Most foreigners who remain in the country for more than 30 days and all Iraqis must obtain exit permission. Travel has been severely limited since September 1986, when the Government imposed tight restrictions on currency exchange. These restrictions were eased somewhat in 1989, but the most an Iraqi may exchange is 1,000 dinars (\$3,220). Because of the drain on the economy caused by the war and reconstruction, permission to travel abroad is restricted to a few categories of Iraqis, including officials, businessmen, government-approved students, and persons needing medical treatment. In 1989 the Government eased restrictions to permit one parent to visit his or her offspring who is studying or working abroad.

While permission for medical treatment abroad may be granted, permission to transfer hard currency abroad to pay for it may not be. In cases of those desiring medical treatment in the United States, the Government now requires a bond to be posted by an American friend or relative with the Iraqi embassy in

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Washington before exit permission is granted. The minimum amount of this bond is \$10,000. The Government sometimes limits the countries an Iraqi traveler may visit and, should the traveler visit a nonauthorized country, a small fine may be levied upon his return. Iraqis who have residences abroad may depart the country, provided they originally left before the war began. A married woman must have the permission of her husband to travel abroad.

The Government can require a prospective traveler to post a substantial bond to assure his return. The RCC decreed in 1987 that Iraqi students abroad who refuse to return to Iraq must reimburse the Government for all education received in Iraq or abroad at government expense. The decree is applicable retroactively to students who have refused to return since May 16, 1983, the date the Government began requiring employees leaving government jobs before 20 years of service to reimburse the State for the cost of their education. Amounts due can be recovered by confiscation; nonpayment may result in imprisonment. Each student must provide a guarantor before traveling abroad. This guarantor and the student's parents may be held liable if the student fails to return.

There is no specific ban on emigration or special restrictions for members of minority groups; however, emigration is discouraged. For the past several years, almost all of those given permission to emigrate have been Christian Iraqi wives of former Iraqi citizens now living abroad as citizens of another country. Prospective emigrants have had travel permission delayed and have been harassed. Many emigrants leave behind substantial property because of the difficulty of exporting assets. Currency exchange violations are considered national security offenses, and penalties can be severe.

Non-Iraqi spouses of Iraqi citizens who have resided in Iraq for 5 years are required to take Iraqi nationality or leave Iraq. Many people, including several Americans, have thus been obliged to accept Iraqi citizenship and are therefore subject to the present travel restrictions. In March 1984, an order by the RCC reduced the residency period before naturalization to 1 year for the spouses of Iraqi citizens employed in government offices. The Iraqi spouse faces penalties for noncompliance, including loss of job, a fine of approximately \$10,000, and repayment of the costs of education. Iraq does not recognize the concept of dual nationality, and many Iraqi "dual nationals," especially the children of an Iraqi father and a mother of non-Iraqi birth, have been denied permission to leave Iraq to visit the country of their other nationality.

In recent years, the Government has instituted special programs to encourage repatriation of qualified professionals. Aliens of Iraqi origin can apply for a document permitting them to enter and exit from Iraq without a visa.

Other persons of Iraqi origin are permitted to return, including many persons who were admitted to other countries as refugees. A number of such people, especially Assyrian Christians, have returned on temporary visits. They are free to come and go, within the limits of the present travel restrictions, since they are not considered to have violated Iraqi laws. However, those who emigrated only after the beginning of the Iran-Iraq war, including several U.S.

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permanent resident aliens, have been unable to depart from Iraq after returning. In September and November 1988 and in February and March 1989, the Government announced amnesties for Kurds who fled the country for any reason. Approximately 2,000 have voluntarily returned from refugee camps in Turkey.

Section 3 Respect for Political Rights: The Right of Citizens to Change Their Government

Iraqi citizens do not have the ability peacefully to change their government. President Saddam Hussein and the RCC rule Iraq through the Ba'ath Party. It reportedly has some 1.5 million adherents, representing about 9 percent of the population.

There are two other small legal political parties, both Kurdish. They and the Ba'ath Party constitute the Patriotic and Progressive National Front, essentially a vehicle of support for the Government. Members of the military or security services may engage in political activities only within the Ba'ath Party. Association with the party is not required for appointment to senior government positions or military ranks or election to the National Assembly, but is normally necessary to attain political influence. Opposition groups, including various Kurdish groups and splinter parties, are severely repressed. The Communist Party was removed from the National Front and declared illegal in 1979. The Da'wa organization, a violent Shi'ite group, is still proscribed, and its members are subject to incarceration and execution, as are members of other parties believed to be cooperating with Iran. Plans the Government announced in 1988 to permit legal formation of opposition parties were not implemented in 1989.

General elections were held for the 250-seat National Assembly in April. Though in theory possessing a wide range of official duties, the Assembly exercises little real authority. The majority of the more than 900 candidates were independents, although all supported current government policies. The elections by secret ballot were more open than in the past, and some high-ranking Baath party officials were defeated.

The biennial elections for the Legislative Assembly of the Kurdish Autonomous Region were held in September 1989. All 174 candidates, from the three legal parties and independents, had to satisfy the same requirements as National Assembly candidates. The Legislative Assembly does not exercise meaningful authority.

In October 1989, an Experts Commission finished drafting a new Constitution to replace the Provisional Constitution of 1970. Iraqi officials assert that the new Constitution will provide more guarantees of human rights. However, the new Constitution has not yet been made public pending approval by President Saddam Hussein and the RCC.

Section 4 Governmental Attitude Regarding International and Nongovernmental Investigation of Alleged Violations of Human Rights

The Government allows one human rights group to operate inside Iraq, but this is largely under government control. The Government has rarely cooperated with private foreign groups

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or international organizations in investigating events or practices in Iraq.

The Government denies charges that it violates human rights, and claims that the information on which AI and other human rights groups base their charges comes from pro-Iranian and Kurdish Iraqi exile groups in London and Paris. In its 1989 report on children in Iraq, AI cited several instances in which Iraqi authorities had commented on AI reports or responded to AI inquiries, but in each case these authorities had defended the Government's actions as justifiable or denied the accuracy of AI's information. A resolution before the U.N. Subcommittee on the Prevention of Discrimination and Protection of Minorities in August 1989, recommending that the U.N. Commission on Human Rights study the human rights situation in Iraq, was narrowly defeated.

Iraq does cooperate with the International Committee of the Red Cross in efforts to resettle Iranian civilian refugees in third countries, and the U.N. High Commissioner for Refugees has had a permanent representative in Iraq since April 1988 who registers Iranian refugees and works for their resettlement.

Section 5 Discrimination Based on Race, Sex, Religion, Language, or Social Status

The Ba'ath Party is committed to the equality of the sexes, and a series of laws since it came to power in 1968 has steadily improved the status of women. There have been laws to protect women from exploitation in the workplace; grant subsidized maternity leave; permit women to join the regular army, popular army, and police forces; and equalize women's rights in divorce, land ownership, taxation, suffrage, and election to the National Assembly. In the 1970's, the Government imposed legal penalties on families that opposed sending their women to literacy schools, and on men who were seen harassing women. While the application of these laws has resulted in significant tangible improvements for women, a number of problems remain. Married women may still travel abroad only with the permission of their husbands. School enrollment of females has been increasing in recent years, reaching 45 percent in elementary schools and 36 percent in secondary schools in 1985-86.

Women represent about 47 percent of agricultural workers and about 25 percent of the total work force. The war accelerated the Government's drive to elevate the status of women, and it appears to have significantly reduced, if not removed, barriers to the acceptance of women in traditional male roles. Women are increasingly employed as architects, construction engineers, oil engineers, air traffic controllers, and factory and farm managers. Their role in the armed forces is limited to the medical field.

Violence against women, such as wife beating and rape, is known to occur but little is known about its extent. Such abuse is customarily dealt with within the tightly knit Iraqi family structure because of the value attached to personal privacy in this conservative society. Consequently, there is no public discussion of the subject, and there are no official statistics. Excessive violence against women would be grounds for divorce and criminal charges, but suits brought on these charges in Iraq are believed to be rare.

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The use of minority languages is unrestricted. Kurdish is an official language used in schools and media in Kurdish areas. Turcomans publish in their dialect of Turkish, and Christians often use Aramaic as well as Arabic.

The Shi'a, who make up roughly 55 percent of the population, have historically been economically, politically, and socially disadvantaged throughout much of the Middle East. The Government has a declared policy to raise their living standards and equalize opportunities for their economic and professional advancement. For four centuries, political power in Iraq has been concentrated in the hands of the Sunni minority. Sunni Arabs, who comprise 20 to 25 percent of Iraq's population, dominate the RCC, the Regional Command of the Ba'ath Party, and the Cabinet. However, increasing numbers of Shi'as hold prominent positions, and the economic status of the Shi'a has improved through intensive government investment in the economic and educational infrastructure of southern Iraq.

Although Christians sometimes allege discrimination in education and jobs, adherence to their religion has not prevented many from obtaining wealth and professional advancement. The Deputy Prime Minister and Foreign Minister, a Chaldean Christian, has represented Iraq at meetings of the foreign ministers of the Organization of the Islamic Conference. Other Christians hold important official and private positions.

Citizens considered to be of Iranian origin carry special identification. They are often precluded from desirable employment and their advancement may be impeded. Many "Iranian" families have been in Iraq for generations. The two holiest shrines of Shi'a Islam, the prevalent sect in Iran, are located in Iraq. For generations Iranians have come to Najaf and Karbala on pilgrimage or to study in the seminaries, and many settled there. Some "Iranians" say their forebears were not from Iran but claimed Iranian nationality to evade Ottoman military conscription.

Section 6 Worker Rights

a. The Right of Association

Trade unions independent of government control do not exist in Iraq. Under the trade union organization law of June 2, 1987, a new single trade union structure was prescribed for organized labor. Workers in private and mixed enterprises and in cooperatives--but not public employees or workers in state enterprises--have the right to join a local union committee. The committees form trade unions which in turn are part of provincial trade union federations. At the top is an umbrella organization, the Iraqi General Federation of Trade Unions, which is organically linked to the Ba'ath Party and required to promote party principles and policies among union members. The General Federation is affiliated with the International Confederation of Arab Trade Unions and the Communist-controlled World Federation of Trade Unions. It is also active in the tripartite Arab Labor Organization, headquartered in Baghdad.

Although workers legally have the right to strike, after providing notice to the Labor Ministry, no such strikes were reported in 1989. There was a 1-day wildcat walkout by Egyptian workers protesting excessive work hours.

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b. The Right to Organize and Bargain Collectively

The right to bargain collectively is not recognized. Salaries for public sector workers (i.e. the bulk of the employed) are set by the Government. Wages in the private sector are set by the employers or negotiated individually with workers.

Iraq, which has ratified International Labor Organization (ILO) Convention 98 on the Right to Organize and Bargain Collectively, was criticized by the ILO's Committee of Experts (COE) in 1989 for the fact that its new labor code of 1987 fails to provide workers with protection against antiunion discrimination. The COE also expressed regret that the 1987 Act on trade union organizations did not provide for collective bargaining.

There are no export processing zones in Iraq.

c. Prohibition of Forced or Compulsory Labor

Although compulsory labor is prohibited by law, during and shortly after the war with Iran the Popular Army, the militia of the Ba'ath Party, employed press-gang methods to draft recruits. However, these activities ceased in November 1988, and the Popular Army was for the most part demobilized in 1989.

ILO supervisory bodies again in 1989 expressed concern that the Penal Code permits the punishment of civil servants with imprisonment, including compulsory prison labor, for breaches of labor discipline, which include resigning from one's job. A November cabinet meeting, reported in the government-directed press, quoted the remark of a minister that resignation from government jobs should be free, confirming that heretofore civil servants have had to buy their way out of government service.

d. Minimum Age for Employment of Children

Children are frequently encouraged to work as necessary to support the family, but the employment of children under age 14 is forbidden in all enterprises other than small-scale family enterprises. Children between the ages of 14 and 18 who are employed are protected by law: they work fewer hours and have more privileges than adult workers.

e. Acceptable Conditions of Work

The workweek in urban areas is 6 days, 7 to 8 hours a day, for workers in the private and mixed sectors. These provisions do not apply to agricultural workers whose workweek and hours of work per day can vary according to individual employer-employee agreements. Hours for government employees are set by the head of the ministry for which the employee works. Many government employees routinely work longer than 8 hours a day, some of them as much as 12 hours per day.

Occupational safety programs are in effect in state-run enterprises, and inspectors make visits irregularly to private establishments. Enforcement varies widely. A government decree to extend occupational safety and health protection was issued and subsequently withdrawn in December 1988, reportedly resulting in the dismissal of the Labor Minister.

A special problem arose after the Government decided in June to reduce drastically the amount of hard currency foreign

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workers could remit. It is widely believed that the Government took this measure to "encourage" foreign workers to leave the country, thus freeing jobs for demobilized Iraqi soldiers. Workers not on contract were particularly hard hit. Most of the over 2 million Egyptian workers in Iraq were manual laborers. When they learned they would be able to transfer only \$32 per month, they began to leave Iraq in droves, an estimated 2,000 per day by air alone. Egyptian and other foreign workers in Iraq have claimed that some Iraqi employers forced them to work 12 to 15 hours a day for 8 hours' pay or refused to pay wages. The Government has admitted that Iraqi banks have been slow to pay remittances. Egyptian workers are in fact receiving their savings a year after leaving Iraq.

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COUNTRY REPORTS ON HUMAN RIGHTS PRACTICES FOR 1990

R E P O R T

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Iraq is a de facto one-party state governed in theory by the Arab Ba'ath Socialist Party (ABSP) through a Revolutionary Command Council (RCC) which is vested with both executive and legislative authority under the provisional Constitution of 1968. In practice Saddam Hussein holds decisive power as President of the Republic, Chairman of the RCC, and Secretary-General of the Regional Command of the ABSP. In 1989 the Government announced its intention to adopt a multiparty system enshrined in a new constitution. However, the draft constitution published in July 1990, but not yet adopted, would alter the form but not the substance of Iraq's political system. In the new "Presidential Republic," the President would assume most of the current powers of the RCC, which would be abolished. Iraq's population comprises many disparate groups, most notably Shi'a and Sunni Muslim Arabs, Kurds, Turcomans, and various Christian sects, predominantly Assyrian and Chaldean.

Iraq's armed forces are large, generally well trained and well equipped, and include a special component, the Fursan, or Kurdish tribal levies, with responsibility for security within the Kurdish autonomous region. A security apparatus consisting of militias attached to the President, the ABSP, and the Interior Ministry has been responsible for numerous human rights violations. The armed forces have been responsible for human rights abuses. Iraq's National Police is responsible for civil order.

The Government exerts a high degree of control over the economy, dominated by the petroleum sector, and owns all major industries. The Government's program of divestiture and privatization in agriculture, tourism, services, and light industry stalled early in 1990 with the introduction of stricter currency and import controls. Iraq's staggering foreign debt (a minimum of \$40 billion to non-Arab creditors), a product of the country's guns-and-butter policy, was a liability to its ambitious economic development plans as lender countries increasingly refused to reschedule debt.

Iraq's abysmal record of repression of human rights was even more flagrant in 1990. Following its invasion and takeover of Kuwait in August, Iraq flaunted the Fourth Geneva Convention on Civilians and other established norms of civilized behavior by arbitrarily detaining hundreds of foreign civilians in both Iraq and Kuwait and dispersing many of them to strategic sites as "human shields" against possible military attack. Nationals of some other countries were also denied permission to leave. There were credible reports of mass extrajudicial killings, summary executions, and widespread arrests and torture of Kuwaiti citizens by Iraqi forces.

Almost every category of human rights dealt with in this report is severely restricted or nonexistent in Iraq. Freedoms of speech and press and of assembly and association are virtually nonexistent, and Iraqis do not have the right to change their government. The intelligence services continued to conduct extensive surveillance and to use extralegal means, including extreme forms of torture and summary execution of children as well as adults, to suppress antiregime activity. Other important human rights problems included continuing disappearances and arbitrary detentions, denial of due process, and widespread interference with the right to privacy.

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Having brutally crushed most vestiges of Kurdish guerilla resistance in 1988, through the use of chemical warfare and a massive forced relocation of some 500,000 Kurds and Assyrians, the regime faced little if any resistance from those groups in 1990. However, it continued to maintain a "no-man's land" along its border with Turkey, some villages were razed, and there were reports that some villagers were killed.

President Saddam Hussein announced in April that Iraq would retaliate with CW if Israel attacked Iraq. He later extended that threat to any would-be attacker. Iraq initiated CW use during the Iran-Iraq war and used CW against its own Kurdish citizens after the Gulf War cease-fire in 1988.

RESPECT FOR HUMAN RIGHTS**Section 1 Respect for the Integrity of the Person, Including Freedom from:****a. Political and Other Extrajudicial Killing**

Execution has been an established Iraqi method for dealing with perceived political and military opponents of the Government, including, but not limited to, members of the outlawed Da'wa organization (an Iran-supported fundamentalist Shi'a Muslim group that has engaged in acts of international terrorism). In some cases, a family only learns that one of its members has been executed when the security services return the body, often showing clear signs of torture, and require the family to pay a fine.

There were credible reports that hundreds of Iraqi Kurds, as well as Assyrians, Arabs, and Turcomans, having returned to Iraq and surrendered to the authorities under official amnesties or after receiving assurances that they would come to no harm, had suffered torture or execution or "disappeared" while in custody. In June Amnesty International (AI) reported that 30 Turcomans, including 4 who had returned from Turkey under an official amnesty, had been executed in late January.

The Iraqi military killed hundreds of civilians in Kuwait after the invasion. The possession of opposition literature, the Kuwaiti flag, or photographs of the Emir of Kuwait were, according to numerous credible reports, treated as capital offenses.

AI reported, based on interviews with witnesses who had escaped Iraq, that for the past several years the Government has imprisoned, tortured, and killed hundreds of children in efforts to silence or intimidate their dissident parents. While no direct reports of killings of children emerged from Iraq in 1990, there is no reason to believe the regime changed its policy. On the contrary, Iraqi forces in Kuwait engaged in reprisal killings, summarily and randomly executing civilians, including children as young as 12. The true nature of the regime was starkly outlined by the systematic looting of hospitals for equipment and supplies which resulted in patients being disconnected from life-support systems and, in one particularly ghastly incident, in killing 72 babies by dumping them from their incubators (see the report on Kuwait).

IRAQ**b. Disappearance**

There were credible reports from multiple sources, including the U.N. Working Group on Enforced or Involuntary Disappearances, of the "disappearance" of large numbers of persons while in the custody of Iraqi authorities. AI reported that thousands of people arrested over the years by Iraqi security or intelligence forces "disappeared" while in detention, with many feared executed. AI reported in June that five of six Kurdish refugees who had been returned to Iraq on January 2 and 3 and who had been members of the opposition Pesh Merga forces, as well as another 40 Kurdish refugees forcibly repatriated to Iraq on January 21, are currently unaccounted for.

c. Torture and Other Cruel, Inhuman, or Degrading Treatment or Punishment.

Despite the constitutional prohibition against torture, the use by Iraqi authorities, especially the security police, of both physical and psychological torture is generally acknowledged. Given the rigid chain of command within the Government and the security services, torture could not be practiced without the knowledge or authorization of senior officials. Treatment is reportedly worst immediately following arrest and during the period of interrogation and investigation, which can last for months. Torture and brutal treatment are not limited to political cases. Security-related offenses are broadly defined and include such routine criminal matters as currency violations.

In its 1990 Report, covering 1989, AI stated that the routine torture and ill-treatment of prisoners continued to be reported. It said the victims included children who were reportedly beaten, suspended from the ceiling by their wrists, and given electric shocks. The authorities forced dissidents to watch the torture of their children or other family members in order to silence or intimidate them, according to these reports.

Methods of physical torture by Iraqi military and security personnel since the invasion of Kuwait included rape, electric shock, prolonged beatings on sensitive body parts, and the breaking of limbs. Psychological torture methods included threats of sexual assault or execution, mistreatment of family members, mock executions, and general degradation and humiliation.

d. Arbitrary Arrest, Detention, or Exile

The Constitution and legal code prohibit arbitrary arrest and detention but, as with most other legal safeguards in Iraq, these provisions have virtually no weight in political or national security cases. Security police not only make arbitrary arrests but also secretly detain suspects, whose fate sometimes becomes known only after they have been executed. Security charges have included not only espionage, treason, and conspiracy against Iraq, often in collaboration with unnamed foreign enemies, but also ordinary criminal actions such as currency violations.

AI and Middle East Watch reported that hundreds of Kuwaiti nationals were arrested for suspected opposition to Iraq's annexation of Kuwait. A number of those released reported that detainees were routinely tortured during interrogation

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IRAQ**b. Freedom of Peaceful Assembly and Association**

These freedoms are still severely limited. Public meetings may only be organized under the auspices of the Government or the Ba'ath Party. Association for nonreligious purposes and demonstrations without government approval have met with severe repression. Professional organizations are subject to control by the Ba'ath Party Central Vocational Bureau.

c. Freedom of Religion

Iraq is an ethnically and religiously diverse society, and the Ba'ath Government, while carefully controlling religious groups, has enforced tolerance of religious diversity, seeking to submerge religious differences in the promotion of secular nationalism. A 1981 law gave the Ministry of Endowments and Religious Affairs the authority to promulgate laws and regulations governing places of worship, appointment of clergy, publication of religious literature, and participation in religious councils and meetings. Muslim religious leaders operate under close government supervision, are considered government employees, and receive their salaries through the Government. There are no penalties under Iraqi law for changing one's religion, although there is a social stigma for Muslims who convert to another faith.

The Government has been less intrusive into the religious affairs of Iraq's Christians, who number more than 500,000 and constitute nearly 4 percent of the population. Their freedom of worship in churches of established denominations is legally protected, but they are not permitted to proselytize or to hold meetings outside church premises. Convents and monasteries exist, and some new churches have been constructed, in some cases with government financial support. The Jewish community has decreased from 150,000 following World War II to under 300. There is no recent evidence of overt persecution of Jews, but the regime restricts their travel, particularly to Israel and their contacts with coreligionists abroad. One synagogue in Baghdad still functions.

d. Freedom of Movement Within the Country, Foreign Travel, Emigration, and Repatriation

Iraqis are generally free to travel within the country and to change their residences or workplaces. However, they are likely to be constrained by social, cultural, and religious traditions which define the areas occupied by the various ethnic and religious groups. Sensitive border and other security areas are off limits. There are police checkpoints on highways and outside major towns. Iraqis and nondiplomatic foreigners travel freely in nonrestricted areas.

The Government's harsh campaign to suppress Kurdish rebels, involving mass relocations of Kurdish and Assyrian villagers, has nullified the right of hundreds of thousands to choose their place of residence. Since traditional Kurdish and Assyrian culture has been deeply embedded in the rural village, the forced removals of up to 500,000 people and razing of villages has had a destructive impact on their culture and way of life.

In January the Government eased travel restrictions imposed in 1982, but reimposed full restrictions after the invasion of Kuwait. During those 7 months, Iraqis of all ethnic and

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religious backgrounds whose loyalty to the regime was not in question were permitted to travel abroad for tourism and privately funded education. The regime continued to restrict travel of anyone whose political views were suspect.

Despite the January liberalization of travel regulations, certain restrictions remained. The Government retained the right to require prospective travelers to post a substantial bond to assure their return. The 1987 RCC decree, requiring Iraqi students abroad who refused to return to Iraq to reimburse the Government for all education received in Iraq or abroad at government expense, remained in effect. The decree is applicable retroactively to students who have refused to return since May 16, 1983, the date the Government began requiring employees leaving government jobs before 20 years of service to reimburse the State for the cost of their education. Amounts due can be recovered by confiscation; nonpayment may result in imprisonment. Each student must provide a guarantor before traveling abroad. This guarantor and the student's parents may be held liable if the student fails to return. A married woman must still have the concurrence of her husband to travel abroad.

There is no specific ban on emigration or special restrictions for members of minority groups; however, emigration is discouraged. Until January almost all of those given permission to emigrate have been Christian Iraqi wives of former Iraqi citizens now living abroad as citizens of another country. With the travel liberalizations, great numbers of Iraqis began to emigrate with relatively little difficulty until the August reimposition of travel restrictions. Many emigrants leave behind substantial property because of the difficulty of exporting assets. Currency exchange violations are considered national security offenses, and penalties can be severe.

Non-Iraqi spouses of Iraqi citizens who have resided in Iraq for 5 years are required to take Iraqi nationality or leave Iraq. Many people, including several Americans, have thus been obliged to accept Iraqi citizenship and are therefore subject to the present travel restrictions. In March 1984, an order by the RCC reduced the residency period before naturalization to 1 year for the spouses of Iraqi citizens employed in government offices. The Iraqi spouse faces penalties for noncompliance, including loss of job, a fine of approximately \$10,000, and repayment of the costs of education. Iraq does not recognize the concept of dual nationality, and many Iraqi "dual nationals," especially the children of an Iraqi father and a mother of non-Iraqi birth, have been denied permission to leave Iraq to visit the country of their other nationality.

Other persons of Iraqi origin have generally been permitted to enter and depart freely, within the limits of the present travel restrictions, including many admitted to other countries as refugees, since they are considered not to have violated Iraqi laws. A number of such people, especially Assyrian Christians, have returned on temporary visits. However, those who emigrated only after the beginning of the Iran-Iraq war in 1980, including several U.S. permanent resident aliens, have been unable to depart from Iraq after returning.

In March the Government issued an amnesty for Kurds who had fled Iraq, particularly after the Iraqi Government used

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chemical weapons against Kurdish civilians in 1988. The amnesty was extended until July. Several thousand Iraqi Kurds returned from refuge in Turkey and Iran. AI estimated that about 11,000 returned to Iraq from Turkey as a result of this amnesty. The Kurdish and Assyrian former inhabitants of the special "security zone" established by the Government inside Iraq's borders with Turkey and Iran in 1989 remained forcibly resettled around the cities of Sulaymaniya, Arbil, and Zakho.

Section 3 Respect for Political Rights: The Right of Citizens to Change Their Government

Iraqi citizens do not have the ability to change their government peacefully. President Saddam Hussein and the RCC rule Iraq through the Ba'ath Party. It reportedly has some 1.5 million adherents, representing about 9 percent of the population. The National Assembly and the legislative assembly of the Kurdish Autonomous Region are totally subordinate to the executive authority.

There are two other small legal political parties, both Kurdish. They and the Ba'ath Party constitute the Patriotic and Progressive National Front, essentially a vehicle of support for the Government. Members of the military or security services may engage in political activities only within the Ba'ath Party. Association with the Ba'ath Party is not required for appointment to senior government positions or military ranks or election to the National Assembly, but it is normally necessary to attain political influence. Opposition groups, including various Kurdish groups and splinter parties, are severely repressed. The Communist Party was removed from the National Front and declared illegal in 1979. The Da'wa organization, a violent Shi'ite group, is also proscribed, and its members are subject to incarceration and execution, as are members of other parties believed to be cooperating with Iran. The Government announced plans in 1988 to permit opposition parties. Several months of RCC reviews in mid-1990 produced a draft envisaging a multiparty system, but implementation plans were halted following the invasion of Kuwait.

Section 4 Governmental Attitude Regarding International and Nongovernmental Investigation of Alleged Violation of Human Rights

The one authorized human rights group in Iraq operates largely under official control. The Government denies charges that it violates human rights, and generally claims that the information on which AI and other human rights groups base their charges comes from pro-Iranian and Kurdish Iraqi exile groups in London and Paris. The Government has consistently--and successfully--resisted the efforts of the United Nations Commission for Human Rights (UNCHR) to send a mission from the Subcommittee on Prevention of Discrimination and Protection of Minorities to investigate human rights in the country. The Government extended invitations through its human rights organization to UNHRC Subcommittee experts to visit Iraq as private citizens whose reports would be unofficial; four experts visited Iraq in April 1990. The Government hosted a Swedish parliamentary delegation studying the Kurdish issue in March. That group, which was not allowed to visit prisons or interview political prisoners, reported that the Government refused to answer any general questions about abuse of political prisoners and provided few or no details about specific cases raised by the Swedes.

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Iraq cooperates with the International Committee of the Red Cross in efforts to resettle Iranian civilian refugees in third countries, and the U.N. High Commissioner for Refugees has had a permanent representative in Iraq since April 1988 who registers Iranian refugees and works for their resettlement.

Section 5 Discrimination Based on Race, Sex, Religion, Language, or Social Status

The Ba'ath Party is committed to the equality of the sexes and has passed laws to protect women from exploitation in the workplace; grant subsidized maternity leave; permit women to join the regular army, popular army, and police forces; and equalize women's rights in divorce, land ownership, taxation, suffrage, and election to the National Assembly. In the 1970's, the Government imposed legal penalties on families that opposed sending women to literacy schools and on men who were seen harassing women. While the application of these laws has resulted in significant tangible improvements for women, a number of problems remain. Married women may still travel abroad only with the permission of their husbands. School enrollment of females has been increasing in recent years, reaching 45 percent in elementary schools and 36 percent in secondary schools in 1985-86.

Women represent about 47 percent of agricultural workers and about 25 percent of the total work force. The Iran-Iraq war accelerated the Government's drive to elevate the status of women, and it appears to have significantly reduced, if not removed, barriers to the acceptance of women in traditional male roles. Women are increasingly employed as architects, construction engineers, oil engineers, air traffic controllers, and factory and farm managers. Their role in the armed forces is limited to the medical field.

Violence against women, such as wife beating and rape, is known to occur, but little is known about its extent. Such abuse is customarily addressed within the tightly knit Iraqi family structure. There is no public discussion of the subject, and there are no official statistics. Excessive violence against women would be grounds for divorce and criminal charges, but suits brought on these charges in Iraq are believed to be rare.

The Shi'a, who make up roughly 55 percent of the population, have historically been economically, politically, and socially disadvantaged. The Government has a declared policy to raise their living standards and equalize opportunities for their economic and professional advancement. For four centuries, political power in Iraq had been concentrated in the hands of the Sunni minority. Sunni Arabs, who comprise 20 to 25 percent of Iraq's population, dominate the RCC, the Regional Command of the Ba'ath Party, and the Cabinet. However, increasing numbers of Shi'as hold prominent positions, and the economic status of the impoverished Shi'a masses has improved through intensive government investment in the economic and educational infrastructure of southern Iraq.

Although Christians sometimes allege discrimination in education and jobs, adherence to their religion has not prevented many from obtaining wealth and professional advancement.

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The use of minority languages is unrestricted. Kurdish is an official language used in the schools and the media in Kurdish areas. Turcomans publish in their dialect of Turkish, and Christians often use Aramaic as well as Arabic.

Citizens considered to be of Iranian origin carry special identification. They are often precluded from desirable employment.

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**Department of State World Refugee Reports - Iraq
1989-1990**



United States Department of State
Bureau for Refugee Programs

World Refugee Report

September 1989



ly, an uncertain number of Iranian Kurds who crossed into the mountainous northern region of Iraq in 1988 have been given temporary refuge in camps in that area. Both ICRC and UNHCR have access to the facilities at Al-Tash and Shomeli, but not to the temporary camps in the north.

The Al-Tash camp is constructed of mud brick, and is divided into tribal subcommunities for each of the 32 Kurdish tribes represented among the inhabitants. Each tribe has a designated chief, but there is no other internal organ of government. The Iraqi Government administers the camp, and distributes staples and a small monetary allowance to the inhabitants. It also supplies medical care and assists in providing elementary education. A few of the inhabitants are permitted to work outside the camp.

U. S. resettlement of Iranians has been primarily directed toward members of religious minorities placed at risk by the Khomeini regime. Principal among these are Jews and the Baha'i, a minority religious faith which has been a target of persecution by Islamic fundamentalists.

Iraqi Refugees

At least 106,000 Iraqi Kurds are now in exile in Turkey and Iran as the result of flight that both predates and postdates the August, 1988 cease fire between Iraq and Iran. Throughout that long war Iraqi military forces had also been engaged in attempts to suppress domestic Kurdish insurgent forces. In March, 1988, the predominantly Kurdish town of Halabja became a battleground between the Iraqi garrison and a force of Iranian revolutionary guards and Kurdish rebels. Both sides used chemical weapons, and thousands of civilian residents fled into Iran. Subsequent to the ceasefire, Iraqi forces launched a renewed offensive against Kurdish rebel forces and civilian villages in parts of Iraqi Kurdistan, prompting a large number of Kurds to flee into Turkey. During the same timeframe there were also further outflows to Iran. Reportedly, chemical weapons were extensively used by the Iraqi military in its activities against the Kurds during this period.

Only a small proportion of Kurdish refugees in either country of asylum have as yet responded to an Iraqi offer of amnesty made in late 1988. A portion of the Kurdish refugees entering Turkey have since transferred to Iran, but approximately 36,500 remain in three camps operated by the Turkish government. (See Chapter VI). In April, 1989, UNHCR estimated the Kurdish refugee population in Iran at 70,000.

Domestically, Iraq has over the last several years relocated up to several hundred thousand persons (mostly Kurds) from their tribal homelands and villages to newly constructed relocation centers in the in-

terior of Iraqi Kurdistan. The goal of this endeavor is to establish better control over its border regions and to deny Kurdish rebel forces shelter and assistance by the Kurdish population. This program continued during 1988, with thousands of concrete dwellings having been built, particularly around Arbil, Sulaimaniya, and Dohuk.

Other Refugee Situations

Algeria

Algeria's ideological commitment to third world liberation movements (Polisario and PLO) has made it a refugee-receiving country, although current economic difficulties have reduced both its ability to support them and its attraction as a resettlement location. Algeria presently hosts a significant number of Sahrawis from the Western Sahara, and some 5,000 Palestinians. Moreover, in the southeastern part of the country there are also some 20,000 Sahelian drought victims from Mali and Niger, who have entered Algeria without official permission by traveling overland across the desert.

The Sahrawis' presence dates from the outbreak of the Western Sahara War in 1973, although many arrived in the late seventies. They are located in four camp complexes outside Tindouf near the Algerian/Moroccan/Western Sahara border. Their precise number has not been disclosed by either Polisario or Algerian officials, but private estimates now range up to 100,000. Only about 50,000 camp residents have been the recipients of direct UNHCR aid. Current UN efforts to resolve the Saharan conflict include plans for a census to be taken within the Western Sahara territory and the camps, possibly in late 1989 or 1990.

Algeria's economic crisis, brought on in part by falling oil revenues, has prompted a gradual reduction in food aid to the Sahrawis, but the shortfall has been made up by international donors. Some diminution in public support for the Polisario and consequently the Sahrawi refugees became evident in October 1988, when urban rioters attacked local Polisario offices as well as other domestic targets.

The number of Palestinian refugees in Algeria, including recent expellees from the occupied territories, is estimated at about 5,000. Most of these are educated, employed, and well-integrated into Algerian society; many have married Algerians. A certain number have Jordanian passports and technically are not refugees; those that are have special status under Algerian law. Smaller numbers of Iraqi and other Middle Eastern, Chilean, African and Eastern European nationalities also have found refuge in Algeria. UNHCR,



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World Refugee Report

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have the right to own property. They are not issued Convention travel documents or laissez passers, but identity cards on which their residence permit is stamped.

As Palestinian refugees are assisted by UNRWA, they fall into a category of persons denied recognition as refugees under the UN Convention. Estimates of the Palestinian population in Egypt vary between 70,000 and 100,000. In general, Palestinians resident in Egypt have the same access as Egyptians to commodities, education, health care and other social services.

At present, asylum-seekers are routinely referred to the UNHCR office in Cairo, unless the asylum-seeker is in prison. Egypt does not grant asylum to those who have been given asylum in another country.

India

Soviet troop withdrawals from Afghanistan and the decision that the Indian Peacekeeping Force will be withdrawn from Sri Lanka were the most significant refugee-related events of 1989 in India. The effect in both cases was to increase refugee flows into India. In the east, the Burmese situation was static and the Bangladeshi Chakmas continued to arrive in the northeast provinces of Tripura and Mizoram even as others from that community were accepting repatriation.

The major refugee groups of refugees in India are Afghans, Bangladeshis, Burmese, Iranians, Iraqis, Africans, Sri Lankans, and Tibetans.

Except for the Afghans, most of whom enter on tourist visas, and the Iranians and Africans, many of whom are students, virtually all entry is illegal or clandestine.

Most refugees in India never declare themselves to the authorities but blend in with the local population. Those who do declare themselves are treated on a case-by-case basis. For example, Bangladeshis

considered economic migrants may be given deportation orders which will not be enforced. Chakmas are given refugee status and housed in camps. Shipwrecked Burmese fishermen are repatriated. Burmese fleeing political persecution are given refugee status. Virtually all Tibetans and many Afghans are regarded by India as refugees. Some Sri Lankan Tamils are considered refugees and housed in camps, although the majority of the Sri Lankan Tamils live with friends and relatives and prefer to avoid the purview of the Government.

The benefits provided to refugees by UNHCR and various private organizations have aroused some resentment in various parts of India. The political, social, and economic impact of refugees in the northeast, however, appears most pronounced in Tripura and Mizoram, where the government claims as many as 25,000 Chakma from the Chittagong Hill tracts crossed the border in 1989. Preparation for them with regard to food, shelter and medical supplies was inadequate, leading to quarrels between the Chakmas and the local population.

Iraq

Refugee Generation

The Iraqi Government campaign against an armed Kurdish insurgency is perhaps the single most important factor in generating Iraqi refugees in 1989. Continuing Iraqi efforts to end Kurdish opposition in the north still generate a flow of refugees into Turkey and Iran, though the number is probably much smaller than in previous years. International agencies estimate the total number of displaced Iraqis currently in Turkey at 30,000, and the number in Iran at as many as 600,000.

As a result of a 1988 military campaign against Kurdish rebel forces and civilian villages in parts of Iraqi Kurdistan, about 30,000 Iraqi refugees of the approximately 60,000 who fled to Turkey in late summer of

1982 remain there, some 17,000 have requested voluntary transfer to Iran; about 3,000 returned to Iraq following announcements by the Government of Iraq in late 1988 and early 1989 of an amnesty; a small number have traveled illegally to Syria. Returnees have reportedly been allowed to return to their villages.

In an effort both to police its borders and to deny Kurdish rebel fighters access to shelter and assistance provided by the Kurdish population, the government has created a 30-kilometer "cordon sanitaire" along the 1,200 km border with Iran and Turkey. It has resulted in the enforced relocation of as many as 100,000 Iraqi Kurds from their tribal villages along the border to relocation centers near major northern Iraqi cities.

Refugee Reception

Most refugees entering Iraq during 1989 came from Iran. The ICRC reports that about 31,000 Iraqis (mostly Kurds, but some ethnic Persians, as well as Arabic-speaking Iraqis) are currently interned at Al-Tash camp near Ramadi, West of Baghdad. They are classified as displaced persons rather than refugees. The ICRC estimates another 25,000 Arabic-speaking Iraqis displaced by the Iran-Iraq war have been settled in six villages in the Misan region.

Most refugees are housed in camps. In 1989, the ICRC resettled 88 Iranian refugees to third countries; the UNHCR resettled another 85. The number and composition of refugees seeking asylum in Iraq has remained somewhat stable over the past year.

Iraq has made no effort to forcibly return refugees to Iran, but has made it clear that Iranian refugees, whether Kurdish or Persian, will not be permitted to settle permanently in Iraq. Iraq is not known to have granted permanent asylum to any refugee in 1989.

Department of State Report: Patterns of Global Terrorism - Iraq 1989



PATTERNS OF GLOBAL TERRORISM: 1989

press reports indicate that Abu Ghayth, the son of the founder of the now defunct IS, may be ready to return to Iraq. Abu Ghayth is a member of the group which he built highly sophisticated and sophisticated. In the meantime, Iraq continues to support various terrorist groups including Mujahideen-in-the-middle-east.

There have been questions in the Middle East about possible Iraqi support for the Kurdistan Workers' Party (PKK). The Iraqi Government has been effectively with the Turkish Government to close the border as well as other parts of the region. In significantly reduce PKK activity in the region. In the December 1989 PKK activity in the region of the Iraqi border.





PATTERNS OF GLOBAL TERRORISM: 1989



April 1990

Iraq

Iraq was removed from the US list of state sponsors of terrorism in 1982. Since the expulsion of the ANO in 1983, Iraq has continued working to improve its international image. Iraq did not sponsor any known acts of international terrorism in 1989. Iraq has continued, however, to provide safehaven to some Palestinian groups, including the Iraqi-created Arab Liberation Front and Abu Abbas's Palestine Liberation Front, responsible for the 1985 Achille Lauro hijacking and killing of an American passenger. In addition, press reports indicate that Abu Ibrahim, the former leader of the now defunct 15 May terrorist organization, has returned to Iraq. Abu Ibrahim is known for the skill with which he built highly sophisticated and lethal suitcase bombs. Iraq continues to support anti-Iranian dissident groups including Mujaheddin-e-Khalq (MEK).

There have been questions in the Turkish media about possible Iraqi support for the terrorist Kurdish Worker's Party (PKK). The Iraqi Government maintains it works effectively with the Turkish Government at the local level on the border as well as on a government to government basis to significantly reduce PKK violence. A major failure was the December 1989 PKK massacre of Turkish villagers near the Iraqi border.

Press Articles on the Commodity Credit Corporation Program for Iraq

There were several hundred articles in newspapers, magazines, and newsletters related to the Banking Committee's investigation of the Banca Nazionale del Lavoro and U.S. policy toward Iraq. The following are articles related to the National Advisory Council's consideration of the Commodity Credit Corporation program for Iraq.

kickbacks and illegal deals funded Saddam

WASHINGTON, D.C. (UPI) — A report by the National Advisory Council on Iraq's Commodity Credit Corporation program for Iraq, published in the Washington Post, says that the program has been a "disaster" for the U.S. and that it has been "funded by kickbacks and illegal deals" from Saddam Hussein's regime.

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FINANCIAL TIMES FRIDAY MAY 3 1991

COPIES

ARMS TO IRAQ

Under the nose of the White House,
kickbacks and illegal deals funded Saddam

A fatal attraction

A joint investigation by the Financial Times and ABC News/Nightline has uncovered fresh evidence that the Bush administration's indulgent attitude towards Iraq made it easy for Baghdad to fund its illegal arms network virtually unhindered in the run-up to the invasion of Kuwait. **Lionel Barber** and **Alan Friedman** report from Washington.

Financial Times
5/3/91

SIX WEEKS ago a Jordanian middleman received an order from Baghdad for a sophisticated type of hot rolled steel. According to copies of the order, the purchaser specified dimensions of 115mm x 115mm, the kind used in the manufacture of heavy industrial equipment. It is also the kind used in the manufacture of long-barrelled artillery guns.

The order, placed in March 1981, came from Chaled Makhzoumi, working through the Iraqi commercial centre in Amman, Jordan.

Traffic along the dusty road from Amman to Baghdad, one of the main conduits in the past for the transshipment of arms to Iraq, is beginning to build up again.

To defence intelligence officials in Washington this suggests one thing: President Saddam Hussein is still in the business of building up his considerable arsenal.

According to US intelligence sources and Iraqi opposition leaders the Iraqi leader dispatched agents across the border into Jordan - under the direction from Baghdad of his son Uday - in search of spare parts for his remaining tanks, machine guns and artillery, just weeks after his costly expulsion from Kuwait by the US-led coalition.

The revival of the Jordan connection, in violation of the United Nations embargo against Iraq, is a reminder of how resourceful and determined President Saddam had been in building up hundreds of millions of dollars of western technology and weaponry, his aggressive use of which led the US to send more than 500,000 troops to deal with the consequences.

A retired senior US diplomat with extensive experience in the Middle East says the world "has never seen anything as sophisticated as the Iraqi procurement network" - a web of front companies, purchasing agents and money laundering specialists who operated through more than 50 undercover outlets in Europe and the US.

Their collective mission throughout the 1980s, as Iraq exploited the west's (and in particular Washington's) fear of Islamic fundamentalism, should be underlined that various domestic and foreign companies

involved in the Condor II missile project have been helped thanks to the financial operations conducted by the BNL Atlanta branch.

Report dated September 14, 1989 by Saddam, the British intelligence service, to Prime Minister (John Major)

ism in Iran, was this: to help Saddam Hussein build the weapons of mass destruction needed to attain his goal of military supremacy in the Gulf.

Starved of commercial credit by the middle of 1989 because of Baghdad's huge and growing volume of unrepayable debt, the Iraqi agents' chief source of finance was an obscure Italian-owned bank branch in Atlanta, Georgia.

The parent bank's name was Banca Nazionale del Lavoro. BNL may be Italy's biggest bank with \$100bn (£59bn) of assets but the Atlanta branch from which this extraordinary supply effort was largely funded had just 16 employees and authorisation to lend no more than \$500,000 without approval from its head office in Rome.

Between 1987 and 1989, BNL Atlanta - now the subject of criminal proceedings and congressional investigations - made \$30m of Iraqi loan commitments.

These loans were kept off the official books and were used to supply not only legitimate exporters to Iraq but also some of the Iraqi front companies and procurement agents that were covertly channelling equipment ordered by Baghdad for its Saddam's nuclear, chemical and ballistic missile projects.

A joint investigation by the Financial Times and ABC News/Mightline, has uncovered fresh evidence showing that the Bush administration's indulgent attitude towards Iraq in effect allowed the

arms network to operated virtually unhindered.

The FT/ABC investigation has also discovered that, on the financial front, the Bush administration treated Iraq with remarkable leniency, brushing aside evidence of abuse by US companies and by Baghdad of government-guaranteed Iraqi farm credits.

Among the abuses were "kick-backs" or "extras" such as the supply of armoured vehicles to Iraqi officials supplementing the legitimate grain shipments.

The first warnings about the Iraqi loan programme appeared in 1987 when US grain companies complained to the US Agriculture Department (USDA) about Iraqi

Mr Robson (Treasury) was chairing the meeting. He opened by stating the meeting was called for two reasons:

1) ensure appropriate action from a programmatic standpoint.

2) make sure decision would pass sniff test for

hostile congressional

committees or press.

Account of the meeting of the National Advisory Council, November 8, 1989

demands for tyres, air-conditioning equipment, spare parts, trucks and even cash - so-called "after-sales services".

Yet in November 1989, the White House pressed successfully for approval of \$1bn of fresh guaranteed loans requested by the Department of Agriculture's Commodity Credit Corporation (CCC).

Then, in January 1990, President Bush declared it to be in the national interest to allow the US Export-Import Bank to guarantee further loans, despite government studies showing that Iraq was no longer creditworthy.

There were also widespread concerns at the time among US Customs officials and Treasury, Federal Reserve and Office of Management and Budget (OMB) officials that some of the US government loans ostensibly for agricultural commodities were, in fact, diverted by Iraq's Ministry of Industry and Military Industrialisation for the purchase of military goods.

In the light of Mr Saddam's increasingly brutal and unpredictable behaviour and the subsequent invasion of Kuwait the administration's actions raise questions about its judgment and the advice it was receiving.

Some of the answers to these questions may lie in a key White House meeting held on November 8 1989 under the aegis of the National Advisory Council (NAC), a sub-cabinet-level group that reviews government-guaranteed foreign loans that raise political issues.

The meeting was called to resolve an inter-agency dispute over an Agriculture Department proposal to offer \$1bn of fresh CCC Iraqi loan guarantees. As one senior official admitted this week, there were "enough yellow flags (signals of foul play) to make us worry about BNL".

Several features of the meeting were unusual:

● A number of agencies were represented at a high level. It was also attended by a White House representative, which underscored the high political stakes involved.

● The meeting's minutes were deemed sensitive enough to be classified, the first time this has occurred since the late 1970s, according to a US government lawyer.

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● A month earlier, a Federal Reserve official had told a previous NAC meeting that Iraq's use of the CCC programme amounted to a "Ponzi scheme" - an American term which means that Iraq would default on its CCC loans unless it continued to receive ever-larger CCC allocations. The Fed official also said that Iraq was "probably not creditworthy".

One participant at the White House meeting recalled that the BNL Atlanta scam was uppermost in the minds of several officials. "We had a lot on BNL. We knew the thing was stinking. I think we all understood this was not a happy situation," he said.

Another participant said he tabled numerous concerns about the abuse of the CCC programme, Iraq's creditworthiness and the BNL affair.

According to a number of documents, including reports from the meeting, and interviews with a number of officials, the meeting was told by Mr John Robson, deputy Treasury secretary, that it was important to ensure that the final decision on the \$1bn guarantee would "pass the sniff test for hostile congressional committees and press".

Mr Robert Kimmitt, undersecretary of state, followed up by declaring that Iraq was "very important to US interests in the Middle East"; it was "influential in the peace process" and was "a key to maintaining stability in the region, offering great trade opportunities for US companies".

Mr Kimmitt added that abruptly terminating the \$1bn in guarantees for Iraq was "contrary to the president's intentions" and would most likely further damage US-Iraqi relations.

This assessment seemed all the more curious since just a few weeks before that meeting, the State Department had told the Federal Reserve Bank of Atlanta, the regulatory bank probing the BNL affair, that, far from being a "rogue operation", BNL-Atlanta was in effect part of official Iraqi policy.

According to a September 1989 Italian intelligence report to Prime Minister Giulio Andreotti, and the findings of US investigators, unauthorised BNL funds were being used to finance Iraq's Condor II missile project - despite efforts by the US, Britain and five other countries to halt the spread of missile technology in the developing world.

All this was serious enough to warrant Mr James Baker, US secretary of state, raising the matter with a senior Iraqi official, believed to be Mr Tariq Aziz, Iraq's foreign

minister, at their meeting in Washington on October 6 1989 - the Bush administration's first high-level meeting with Iraq.

At the NAC meeting a month later, Mr Kimmitt nevertheless came out in favour of continuing the CCC programme as a political tool for influencing Iraqi behaviour - and he had the backing of the Department of Agriculture, which appeared to be pursuing its own,

Representatives from USDA's Office of the General Counsel traveled to Atlanta to review BNL's loan files and look into specific allegations made concerning OGM programs. Their preliminary conclusions in regard to these allegations lead us to conclude that there is not sufficient reason to delay a program for Iraq any longer.

Letter from Henry B. Reynolds, Director, Program Development Division, U.S. Department of Agriculture, to Mr Allen R. Cripps, National Advisory Council on International and Monetary Financial Policy, Department of the Treasury, November 1, 1989.

narrower interests.

Seven days before the meeting, a senior Agriculture Department official wrote a letter to the Treasury in which he dismissed allegations about the BNL affair and said the charges "lead us to conclude that there is not sufficient reason to delay a program for Iraq any longer".

Mr Kimmitt's intervention appeared decisive, since Mr Robson summed up that foreign policy and trade considerations overrode "concerns raised by the BNL scandal".

There were other disturbing signs about the extent of knowledge in the administration and the banking system about BNL's activities.

● BNL Atlanta regularly had \$700m to \$1bn outstanding in short-term credits at J.P. Morgan, a large amount for a small bank even considering the fact that its parent in Rome was a triple-A rated bank. Most of BNL's funds after 1987 were channelled through Morgan Guaranty Trust in New York.

The New York Federal Reserve was later to raise questions with J.P. Morgan about the ease with which the funds transfer took place. In August 1989 Mr Gerald Corrigan, president of the New York Fed, told

Mr Lewis Preston, chairman of Morgan Guaranty, that the operation involved amounts of money which started at "fairly modest levels" and over a fairly lengthy period built up to "a pretty goddamn good size".

Mr Corrigan noted that the unusual flow of funds through BNL Atlanta stretched back for more than two years and expressed surprise that the flow had occurred with such ease - given the sums involved and the single destination.

Both Morgan and the New York Fed declined to be interviewed about the Morgan link. Morgan has maintained that the sheer volume of funds in its clearing system in the US makes it difficult to detect anything suspicious about BNL-type transfers. Morgan clears \$250bn a day.

● The FBI-led raid on BNL's Atlanta branch took place on August 4 1989 - but the Federal Reserve inspectors had already compiled a detailed picture of hundreds of millions of dollars of hidden off-book money market transactions in which BNL Atlanta used brokers to borrow interbank funds from big Wall Street and international banks.

These included National Westminster, Mitsui Trust and Banque Nationale de Paris (BNP). Records show that these were some of the funds BNL Atlanta then passed to Baghdad by way of Morgan in New York. Between 1987 and 1989, several thousand telexes criss-crossed between Atlanta and the Iraqi central bank, the state-owned Rafidain Bank, Iraq's Ministry of Industry and Military Industrialisation and other official Iraqi agencies.

● Congressional investigators and US officials maintain that the National Security Agency (NSA), the US code-breaking and surveillance service which can track telex traffic and money flows, ought to have picked up the tell-tale sums of money.

Mr Norm Bailey, a White House aide at the time who started a follow-the-money computer programme that used NSA intercepts, says it is inconceivable that the BNL Atlanta-Baghdad telex traffic was not made available to the administration.

"The only explanation I can think of is that the authorities knew all about it and approved it," he claimed in an interview. "They were using this as a channel for the financing of certain activities."

This is a serious allegation that raises questions about whether the administration sanctioned the bank transfers in pursuit of a foreign policy goal. However, both federal regulatory authorities and US officials deny knowledge of what was going on in Atlanta.

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Whatever the case, the funds proved crucial to President Saddam's war effort for a while.

"BNL," says Mr Achmed Chalabi, a prominent Jordanian banker and Iraqi opposition adviser, "became Iraq's surrogate lender of last resort."

Many BNL-backed US companies were supplying equipment such as electronics, special metals, chemicals and machinery which could be defended as destined for civil rather than military projects. The same was true of BNL-funded British, French, and German companies, all of which were crowding into the Iraqi market.

It is true that the Soviet Union was by far the largest supplier to

Mr Kimmitt (State) opened

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great trade opportunities

for U.S. companies.

Account of the meeting of the

National Advisory Council,

November 8, 1988

the Iraqi military, but what was significant about the western shipments was that they involved high technology and other materials which Baghdad required to accelerate its unconventional weapons and missile programmes.

In the UK, the best-known member of the Iraqi network was Matrix Churchill, a loss-making Coventry machine tools maker whose fortunes were revived through BNL finance. Matrix (which was later bought by Automation Investments) regularly shipped equipment to Iraq; its Ohio sister, Matrix Churchill Inc, was recently seized by US Customs and held up as an example of an Iraqi front company engaged in illicit military procurement activities.

It was only after the end of the Gulf war last February that Mr Richard Thornburgh, US attorney-general, announced the indictments of BNL Atlanta employees and four top Iraqi government officials on charges of money laundering, fraud and conspiracy.

Two lone Democratic congressmen - Mr Henry Gonzalez, a stubborn, unpredictable Texan who heads the House banking committee, and Mr Charlie Rose, a North

Carolina specialist in peanuts, tobacco and Tibetan human - have grappled with its critics.

They alone have challenged Bush administration's ad claim that it was unaware

was going on inside the BNL's Atlanta branch.

Yet even if one assumes that BNL's activities were carried out without the knowledge of the US government, questions remain about the White House's persistent flirtation with Mr Saddam at the time.

"Iraq was a natural ally of moderate Arab states. It was allied with Egypt, it was being constructive in the Middle East peace process," says Mr Peter Rodman, who served in the Reagan and Bush administrations as a senior National Security Council official. "The fact that Saddam was a murderous thug did not change this."

The Iran-Contra scandal which paralysed the Reagan administration for most of 1987, had two big results: official overtures to Iran whether public or private, became taboo; this pushed Washington further toward favouring Baghdad.

Even after the unauthorised BNL credit pipeline was exposed and shut off, Mr Bush signed the January 1990 order allowing Eximbank to offer fresh guarantees to Iraqi loans. Intended or not, the Eximbank decision helped to plug part of the gap left by the absence of BNL money.

It all appeared to make little impression on Mr Saddam, however. Mr Bush was rewarded with a searing burst of anti-Americanism by the Iraqi leader in front of the Arab Co-operation Council on February 22.

At that same meeting, Mr Saddam issued an ominous warning in front of President Hosni Mubarak of Egypt, King Hussein of Jordan and President Ali Abdullah Saleh of Yemen. The Iraqi leader wanted \$30bn he had been lent by Saudi Arabia and Kuwait during the war with Iran to be written off and a further \$30bn put on the table. According to officials present, the Iraqi leader astonished his colleagues by saying he would "know how to go and get the money" if it was not forthcoming.

On March 28 a "sting" operation by British customs ended with the seizure of a number of US made

Iraq admitted that it routinely receives "after sales services" such as armored trucks from suppliers. These after

sales services might be construed as kickbacks which the USDA warned Iraq in 1988 were in violation in the CCC program.

Memo, October 18, 1988, Reserve Bank of Atlanta

electronic "Krytrons" which could have been used as detonators for nuclear weapons. Again, a BNL-funded company - Euromac played a role in the nuclear trigger case. Days later - on April 2 President Saddam threatened to "scorch" Israel with chemical weapons.

Yet the US administration's accommodation of Iraq continued into the following months. In April, May and June 1990, three high-level inter-agency group meetings at the White House rejected the idea of introducing economic sanctions against Baghdad.

As late as last July, just one week before the invasion, US officials both in Washington and in Baghdad were still seeking to find ways of persuading him to play the moderate role he had long since discarded.

This culminated in the now infamous meeting between Ms April Glaspie, then US ambassador to Baghdad, and Mr Saddam in which the American diplomat failed, according to congressional critics, to warn the Iraqi leader in sufficiently strong terms to keep his hands off Kuwait.

Ms Glaspie has served as a convenient scapegoat for the Bush administration. But a fairer interpretation of events would place that meeting in the broader context of US dealings with Iraq - a pattern which suggests either misguided indulgence or a calculated effort to bolster Mr Saddam.

Additional reporting by Richard Donkin and Jimmy Burns in London and Eric Hegin in Washington

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Bush Had Long History of Support for Iraq Aid

■ **Arms control:** Actions in the '80s are an example of how leaders bend programs to serve their own ends.

By MURRAY WAAS
and DOUGLAS FRANTZ
SPECIAL TO THE TIMES

WASHINGTON—In early March of 1987, Vice President George Bush met with Nizar Hamdoun, the Iraqi ambassador to the United States, to deliver some good news: Bush's lobbying efforts were

about to pay off handsomely for Saddam Hussein.

First, Hamdoun was told, two long-awaited licenses permitting Hussein's government to buy militarily sensitive American technology had been approved—over the objections of the Pentagon, according to classified documents. Moreover, Bush had telephoned the chairman of the Export-Import Bank and pressed him to end his opposition to new loan guarantees for Iraq.

Good news indeed. During the months that followed, more than \$600-million worth of technology with dual commercial and military application was licensed for sale to Iraq, government documents and numerous interviews show. And not long after Bush's call, the Export-Import Bank reversed its position and approved \$200 million in new loan credits for Iraq, which earlier had been denied further loans because it was not paying its debts.

Bush's efforts reflected a pattern of personal intervention and support for aid to Iraq that extended from his early years as vice president in the Reagan Administration through the first year of his own presidency and almost to the eve of the Persian Gulf War.

And, while Bush's actions appear not to have violated any laws,

taken together with the activities of other senior officials, they form a textbook example of how powerful political leaders seek to bend obscure government programs to serve their own ends—sometimes with costly results.

At the Export-Import Bank, at the Commerce Department and at the Department of Agriculture, Bush and officials following his lead repeatedly worked to overcome the objections of other officials to what they regarded as unwelcome aid for Iraq.

In the case of the Export-Import Bank, Bush and others succeeded several times in changing its course, but its officials offered surprisingly stubborn and effective resistance—a rear-guard action that ultimately held down the cost to American taxpayers and reduced the indirect U.S. contribution to the Iraqi war machine that engulfed the Middle East in war.

At the beginning, Bush's efforts on Iraq's behalf were part of an unannounced U.S. "tilt" toward Baghdad that was intended to prop up Hussein during his long war with Iran. Behind the tilt was a desire to use Iraq as a buffer against Iranian influence and radical Islamic fundamentalism in the Middle East.

But the policy was pursued well beyond the end of the Iran-Iraq War in the summer of 1988.

Apparently Bush and his supporters failed to recognize that the original reasons for the tilt toward Iraq had been overtaken by events and that their efforts to turn Hussein to more benign directions were not bearing fruit.

As revealed in dozens of classified documents obtained by The Times, Bush and others who shared his views continued to press

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Los Angeles Times
2/24/92

for financial aid and access to sensitive technology for Iraq even after it became clear that Hussein was building an arsenal far larger than he needed to defend his country and was actively developing both nuclear and chemical weapons.

The White House has declined comment.

For instance, a license was approved for the sale of a laser-guided welding system to Iraq for \$1.4 million in January, 1988, at a time when the Iran-Iraq War was in its final months, even though the exporting firm acknowledged in its application that the system would be used for general military repairs on such items as jet engines and rocket casings.

When U.N. inspectors began examining Iraqi nuclear weapons facilities late last year, they discovered that the welding system had been configured to manufacture centrifuges, a key component in Iraq's massive program to enrich uranium for nuclear weapons.

This export was no isolated case. Front companies for every known site at which Iraq developed nuclear and chemical weapons bought American computers with licenses approved by the Commerce Department, according to an analysis by the Wisconsin Project on Nuclear Arms Control, a Washington-based group that monitors arms proliferation issues.

Eventually, officials at the Commerce Department began to resist aid for Iraq but not as quickly or tenaciously as some at the Export-Import Bank.

The Export-Import Bank, known in Washington simply as Ex-Im, was created by Congress in 1984 to help American companies sell more goods abroad. The bank does this by offering loan guarantees to foreign customers purchasing U.S. goods. Virtually all developed countries have similar programs.

While Ex-Im has always made its loan decisions with an eye on American foreign policy interests, the bank is prohibited by law from guaranteeing loans for foreign

countries without "a reasonable assurance of repayment."

In the case of Iraq, the bank's economists consistently concluded that there was little chance Iraq could or would repay the debts.

Numerous classified documents and interviews with officials show that efforts to bring Ex-Im into line with overall U.S. policy toward

Iraq date at least to 1983. But not until Bush took a personal role in 1984 did it authorize the first guarantees for Iraq in a decade.

The early U.S. strategy for helping Iraq was laid out in a cable written by Richard Murphy, assistant secretary of state for the Middle East. Key elements described by Murphy were to:

- Liberalize export controls on high-tech goods to Iraq. Among the items Murphy proposed exporting were "armored ambulances, communications gear and electronic devices for the protection of VIP aircraft."

- Help Iraq finance and construct a \$1-billion oil pipeline to the Jordanian port of Aqaba. This project was seen as a way for Iraq to get around an Iranian blockade of its Persian Gulf shipping terminals.

- Arrange financing for U.S. sales to Iraq through the Export-Import Bank. "Such major Ex-Im financing could boost Iraq's credit rating, leading to increased commercial financing for Iraq," Murphy wrote.

In all three areas, Bush played a central role, beginning with the oil pipeline.

Strapped for money to fight the war and feed his people and cut off from most creditors, Hussein persuaded State Department officials to seek Ex-Im financing.

But the bank, which is run by an independent board, declined. Its objections were outlined by Murphy in a memo to Lawrence S. Eagleburger, then undersecretary of state for political affairs, on Dec. 22, 1983.

"Ex-Im currently opposes loans to Iraq because it considers that loans to Iraq lack a reasonable expectation of repayment," wrote Murphy.

Two days later, Eagleburger wrote William H. Draper III, then Ex-Im chairman, and urged him to be "receptive to financing American sales to and projects in Iraq. . . . From the political stand-

point, Ex-Im financing would show U.S. interest in the Iraqi economy in a practical, neutral context."

Ex-Im remained reluctant until June, 1984—after Bush weighed in. Classified documents show that Bush telephoned Draper, a friend from their college days at Yale University, and asked him to reconsider financing the pipeline.

Government agencies prepare "talking points" as guides or scripts for sensitive conversations. In the

case of Bush's call to Draper, the talking points suggested that the vice president couch his request in terms of the Administration's interest in bolstering Iraq as a means to ending the war.

"Early and favorable action on applications for Ex-Im financing for these pipeline projects would be clear and very welcome evidence of U.S. commitment to these objectives," said the talking points.

The following week, the bank approved \$500 million in loan guarantees for the project. Draper, now an official at the United Nations, said in an interview that he does not recall the telephone conversation with Bush.

For unrelated reasons, the pipeline was eventually abandoned by Iraq, so the guarantees were never used.

Other Ex-Im assistance did begin to flow to Iraq not long after Bush's intervention. In July, 1984, the bank began providing \$200 million in short-term credit for Iraq.

Within months, however, Iraq fell \$35 million behind in its payments, and the bank suspended further assistance. Only after further intervention by Bush was credit to Iraq renewed.

In May, 1986, David Newton, the U.S. ambassador to Iraq, went to Ex-Im headquarters to press its new chairman, John A. Bohn Jr., to resume the guarantees.

"The ambassador was quite downtrodden considering both the status on the war as well as the economy," according to an internal bank account of the meeting.

Yet the memo said that Newton pressed Bohn not only to resume the program but to expand it. The \$200 million on which Iraq had fallen behind was for short-term loans, for which repayment was required within a year. Newton wanted medium-term guarantees, which could total billions of dollars and give Iraq five to seven years to repay.

Bohn held fast. His enthusiasm for "doing any new business in Iraq varies from zero to not much," according to the memo.

Iraq's economic fortunes continued to decline throughout 1986 as world oil prices fell and the costs of its war with Iran rose. Baghdad's payment record to creditors deteriorated, and most commercial banks cut off loans, leaving Iraq scrambling to pay for essential civilian goods. Yet the Ronald Reagan Administration kept pressing Ex-

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Im.

In November, 1986, Ex-Im board member Richard Heldridge was lobbied by Murphy. The State Department official picked an unusual venue—a dinner at the residence of Iraqi Ambassador Hamdoun. Also attending was Houston bank executive A. Robert Abboud, chairman

of the U.S.-Iraqi Business Forum, an organization of businesses set up to foster trade with Baghdad.

Heldridge was sympathetic to the plea, telling other Ex-Im officials in a memo the next day: "Regardless of Iraq's bleak financial picture, I feel we should review our position there and discuss opening for short-term [loans]."

But the bank stuck to Bohn's earlier decision.

In early February of 1987, Iraq brought its payments up to date on loans guaranteed by Ex-Im. Numerous U.S. government reports indicated, however, that the only creditors being repaid by Iraq were those granting the country new loans.

In late February, Bohn received a telephone call from Bush. The vice president was calling in preparation for his meeting in a few days with Hamdoun, the Iraqi ambassador.

"I understand that the Iraqis have resolved some outstanding arrearage to Ex-Im and that the Ex-Im board will decide soon whether to resume short-term credit insurance for Iraq," read talking points prepared for Bush. "I urge you and your colleagues on the board to give that favorable consideration."

The talking points also suggested that Bush tell Bohn: "As you know, there are major U.S. policy considerations at work in this issue. Iraq has apparently countered the latest Iranian offensive, and we are taking advantage of that to put some life into peace efforts. Ex-Im's support for continued trade for Iraq would be a powerful, timely signal—both to Iraq and to the Gulf Arab states—of U.S. interest in stability in the Gulf."

At the time, the analysis of Iraq's financial condition by Ex-Im economists was more dismal than when Bohn had rated the chance of new guarantees as "zero to not much."

"While no official figures are available on Iraq's external debt, various estimates put it at [the] end [of] 1986 at approximately \$50 billion," said the internal analysis.

On May 4, 1987, two senior bank economists warned its board in a

confidential memo: "Our balance-of-payment projections, even under the [most] optimistic assumptions... indicate that Iraq will be unable to service scheduled debt repayments over the next five years." The two economists recommended: "Ex-Im Bank should remain off-cover for all programs concerning Iraq."

Yet on May 15, 1987, the bank renewed short-term loan guarantees for Iraq, with a cap of \$200 million.

In an interview, Bohn said that he does not recall specifics of his conversation with Bush. He said that, as head of the bank, he talked with the vice president several times.

"I can be absolutely sure that I was never directed to loan money to anybody," said Bohn, now head of Moody's Investors Service in New York. "Nor did I ever feel pressured."

Two of Bohn's fellow board members, Heldridge and William F. Ryan Jr., said they were unaware of any contact by the vice president.

"Oh lord, no, I never had such a call or heard about such a thing," said Ryan, who was vice chairman of the board in 1987. "It would be most extraordinary if that occurred."

A few days after telephoning Bohn, Bush met with Hamdoun.

In classified talking points for the March 2 meeting, it was suggested that Bush tell Hamdoun that the Administration was working to expand trade and strengthen relations with Iraq. Bush was told to sympathize about the licensing delays and explain that "a special look" was being taken at high-tech sales to Iraq and similar cases.

"I am pleased that Commerce has recently issued licenses for some long-pending items for Iraq," read Bush's script. "You should take that as a sign of our seriousness in addressing this issue."

Another classified document described the two export licenses that had been approved only as "long-pending licenses for two high-priority scientific projects, including one at the Iraqi Space and Astronomical Center." The document said the licenses had been opposed by the Defense Department.

Stephen D. Bryen, deputy assistant secretary of defense at the time and an opponent of dual-use exports to Iraq, said he believed that one license was for advanced

equipment used to relay satellite information to ground stations. Such equipment could be used to monitor weather—or to watch troop movements and perform other aerial spying.

Commerce Department documents list hundreds of export licenses for more than \$600 million worth of dual-use technology approved for Iraq between the time of Bush's meeting with Hamdoun and Iraq's invasion of Kuwait. Much of that material found its way into Hussein's program to develop nuclear, chemical and biological weapons, reports show that after Bush became President, the Administration intensified the push to expand logical weapons.

Eventually, the flow of high-tech goods to Iraq raised objections within the Commerce Department, but proposals to cut back were killed at the Bush White House.

Classified material and internal Ex-Im's loan program to provide medium- and long-term guarantees to Iraq even though the Iran-Iraq War had ended in 1988 and evidence of Hussein's arms buildup was mounting.

Skeptical of Iraqi means and intentions to repay foreign debts, the bank wanted to stick with less risky short-term credits. The bank's April, 1989, analysis found that Iraq remained a poor credit risk.

At an interagency meeting on April 24, 1989, the State Department objected to the harsh assessment, according to documents, and Ex-Im's economists were pressed to rewrite the report to be more favorable to Iraq. But the assessment that followed was equally tough.

"Iraqi leaders, in the wake of their technology-driven 'victory' over Iran, believe that advanced military technologies—bombers and missiles, chemical and biological weapons and nuclear capability—are the key to military power," said the second analysis.

On June 15, 1989, Ryan, who had succeeded Bohn as acting chairman of the bank, went to the State Department to discuss long-term credits to Iraq with Robert Kimmitt, then undersecretary of state for political affairs and now U.S. ambassador to Germany.

Ryan said that if the State Department wanted to make a big push to help Iraq with medium-

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Secret Effort by Bush in '89 Helped Hussein Build Iraq's War Machine

■ Persian Gulf:

Documents show that 9 months before Hussein's invasion of Kuwait the President approved \$1 billion in aid. Objections from others were suppressed.

By DOUGLAS FRANTZ
and MURRAY WAAS.
SPECIAL TO THE TIMES

WASHINGTON—In the fall of 1989, at a time when Iraq's invasion of Kuwait was only nine months away and Saddam Hussein was desperate for money to buy arms, President Bush signed a top-secret National Security Decision directive ordering closer ties with Baghdad and opening the way for \$1 billion in new aid, according to classified documents and interviews.

The \$1-billion commitment, in



Associated Press

Iraq's Saddam Hussein

the form of loan guarantees for the purchase of U.S. farm commodities, enabled Hussein to buy needed foodstuffs on credit and to spend his scarce reserves of hard currency on the massive arms buildup

that brought war to the Persian Gulf.

Getting new aid from Washington was critical for Iraq in the waning months of 1989 and the early months of 1990 because international bankers had cut off virtually all loans to Baghdad. They were alarmed that it was falling behind in repaying its debts but continuing to pour millions of dollars into arms purchases, even though the Iran-Iraq War had ended in the summer of 1988.

In addition to clearing the way for new financial aid, senior Bush aides as late as the spring of 1990 overrode concern among other government officials and insisted that Hussein continue to be allowed to buy so-called "dual use" technology—advanced equipment that could be used for both civilian and military purposes. The Iraqis were given continued access to such equipment, despite emerging evidence that they were working on nuclear arms and other weapons of mass destruction.

Please see BUSH, A6

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SPECIAL REPORT: BUSH AND AID TO IRAQ

BUSH: Championed Hussein, Iraq Within Months of Gulf War

Continued from A1

"Iraq is not to be singled out," National Security Council official Richard Haas declared at a high-level meeting in April, 1990, according to participants' notes, when the Commerce Department proposed curbing Iraqi purchases of militarily sensitive technology.

Invoking Bush's personal authority, Robert Kimmitt, under-secretary of state for political affairs, added: "The President doesn't want to single out Iraq."

Two in a series of articles. This story is reprinted from Sunday editions. Next: U.S. loan guarantees help Iraq build its war machine.

And the pressure in 1989 and 1990 to give Hussein crucial financial assistance and maintain his access to sophisticated U.S. technology were not isolated incidents.

Rather, classified documents obtained by The Times show, they reflected a long-secret pattern of personal efforts by Bush—both as President and as vice president—to support and placate the Iraqi dictator. Repeatedly, when serious objections to helping Hussein arose within the government, Bush and aides following his directives intervened to suppress the resistance.

The White House declined to comment Saturday.

In the case of the \$1 billion in commodity loan guarantees, for instance, senior Bush aides, armed with the presidential order—NSD 26—insisted that the credits be approved despite objections by officials in three government agencies. These officials warned that aid was being diverted to buy weapons in violation of American law, that the loans would not be repaid and that earlier assistance efforts were plagued by financial irregularities.

Bush's involvement began in the early 1980s as part of the so-called "tilt" toward Iraq initiated by



BERNIE BOSTON Los Angeles Times

In October, 1989, Secretary of State James A. Baker III, above, personally intervened with Agriculture Secretary Clayton K. Yeutter to drop Agriculture's opposition to the \$1 billion in food credits to Iraq.

then-President Ronald Reagan to prop up Hussein in his war with Iran. Hussein's survival was seen as vital to U.S. efforts to contain the spread of Islamic fundamentalism and thwart Iran's bid for dominance in the Middle East.

Many in the American government, including Presidents Bush and Reagan, also hoped that U.S. aid would gradually cause Hussein to moderate his ways and even play a positive role in the Middle East peace process.

But classified records show that Bush's efforts on Hussein's behalf continued well beyond the end of the Iran-Iraq War and persisted in the face of increasingly widespread warnings from inside the American government that the overall policy had become misdirected.

Moreover, it appears that instead of merely keeping Hussein afloat as a counterweight to Iran, the U.S. aid program helped him become a dangerous military power in his own right, able to threaten the very U.S. interests that the program originally was designed to protect.

Hussein to become a force for peace in the volatile region. In the spring of 1990, as senior Administration officials worked to give him more financial aid, the Iraqi leader bragged that Iraq possessed chemical weapons and threatened to "burn half of Israel." Nor did he change his savagely repressive methods. In the summer of 1988,

for example, he shocked the world by killing several thousand Kurds with poison gas.

Even today, the Iraqi nuclear and chemical weapons programs carried forward with the help of sophisticated American technology continue to haunt U.S. and United Nations officials as they struggle to root out elements of those programs that have survived the allied victory in the Persian Gulf War.

What drove Bush to champion the Iraqi cause so ardently and so long is not clear. But some evidence suggests that it may have been a case of single-minded pursuit of a policy after its original purpose had been overtaken by events—and a failure to understand the true nature of Hussein himself.

"When the Iran-Iraq War ended and Iran was really flat on its back, there should have been some immediate kind of repositioning of U.S. policy so you wouldn't give Saddam this signal that we were backing him as the big shot in the region," said William B. Quandt, a Middle East expert at the Brookings Institution.

"We missed so many cues. Saddam wasn't behaving as you might expect an exhausted, war-weary leader to behave. He was showing that he had just won a war and he was a power to be reckoned with and he concluded that the Americans were not too upset about that," Quandt said.

Much of the blame for failing to perceive Hussein's expansionist ambitions and the dangers of building him up has fallen on mid-level officials and on agencies such as the Commerce Department, which approved the sale to Iraq of \$1.5 billion worth of American technology, and the Agriculture Department, which authorized a total of \$5 billion in loan guarantees.

However, classified documents from several agencies and interviews over the last two months demonstrate that it was foreign-policy initiatives from the White House and State Department that guided relations with Iraq from the early 1980s to the eve of the Persian Gulf War—and that Bush and officials working under him played a prominent role in those initiatives.

For example, in 1987, Vice President Bush successfully pressed the federal Export-Import Bank to provide hundreds of millions of dollars in aid for Iraq; the documents show, despite staff objections that the loans were not likely to be repaid as required by law.

After Bush became President, in 1988, documents show that senior officials in his Administration lobbied the bank and the Agriculture Department to finance \$5 billion in new Iraqi projects.

met personally with Nizar Hamdoun, Iraq's ambassador to the United States, to assure him that Iraq could buy more dual-use technology. It was three years later that National Security Council officials blocked the attempt by the Commerce Department and other agencies to restrict such exports.

After Bush signed NSD 26 in October, 1989, Secretary of State James A. Baker III personally intervened with Agriculture Secretary Clayton K. Yeutter to drop Agriculture's opposition to the \$1 billion in food credits. Yeutter, now a senior White House official, agreed and the first half of the \$1 billion was made available to Iraq at the beginning of 1990.

As late as July, 1990, one month before Iraqi troops stormed into Kuwait city, officials at the National Security Council and the State Department were pushing to deliver the second installment of the \$1 billion in loan guarantees, despite the looming crisis in the region and evidence that Iraq had used the aid illegally to help finance a secret arms procurement network to obtain technology for its nuclear weapons and ballistic-missile program.

An Agriculture Department official cautioned in a February, 1990, internal memo that, when all the facts were known about loan guarantees to Iraq, the program could be viewed as another "HUD or savings-and-loan scandal."

Of the \$5 billion in economic aid provided to Iraq over an eight-year period, American taxpayers have now been pushing for \$2 billion in defaulted loans.

Washington's supportive policy toward Iraq began in 1982. Hussein was in the second year of his war with Iran and the conflict was not going well for Baghdad. The Reagan Administration, while officially neutral, decided to help Iraq as a means of containing the Ayatollah Ruhollah Khomeini.

U.S. relations with Iraq had been severed in 1967 after the Arab-Israeli war, but the biggest obstacle to renewed ties was the fact that Iraq was on Washington's official list of countries supporting international terrorism. That meant that most forms of U.S. aid were prohibited by law.

The State Department responded by removing Iraq from the

terrorism list in 1982, but the action opposed by some within the Administration. Four former officials said in interviews that there was no evidence that Iraq was a source of terrorists had waned.

All the intelligence I saw indicated that the Iraqis continued to support terrorism to much the same degree as they had in the past," said Noel Koch, then in charge of the Pentagon's counter-terrorism program. "We took Iraq off the list and shouldn't have. We did it for political reasons."

The assertion was supported by a secret 1988 memo in which Deputy Secretary of State John Whitehead wrote, "Even though it was removed from the terrorism list six years ago, [Iraq] had provided sanctuary to known terrorists, including Abul Abbas of Achille Lauro fame."

Almost immediately after Iraq was dropped from the list, Washington provided loan guarantees to enable it to buy such American commodities as rice and wheat through the Agriculture Department's Commodity Credit Corp.

Two years later in 1984, Bush personally pressed the federal Export-Import Bank to guarantee \$500 million in loans so that Iraq could build a controversial oil pipeline, according to classified government documents.

And throughout much of the period from 1982 to the end of the Reagan Administration, efforts were made to funnel arms as well as economic aid to Baghdad—sometimes through the Pentagon and sometimes through U.S. allies in the Middle East. Some of the specific arms plans failed to work, but government sources said that significant quantities of arms did reach Baghdad as a result of U.S. efforts.

At one point in 1982, for example, a proposal was put forward to trade

four American-made howitzers to Iraq for a Soviet T-72 tank, according to classified documents. The T-72 was of particular importance according to a secret July 1982 report by the Defense Intelligence Agency, because it was protected by a new type of armor, which might prove invulnerable to American firepower. A second plan in 1983 would have allowed Iraq to buy \$45 million worth of 175 millimeter long-range guns and ammunition in exchange for turning over a Soviet tank.

Pentagon officials also reported to then-Secretary of Defense Caspar W. Weinberger that Iraqi officials said it might be possible to exchange a (Soviet Hind) helicopter for permission to buy 100 Hughes helicopters "equipped with TOW missiles, according to a secret Pentagon memo.

For various reasons, each of these deals fell through. The helicopter transaction was "crapped" after the late Richard Sullivan, a retired general who was then deputy undersecretary of defense, objected to working with an Iraq-sponsored arms trafficker with a reputation for questionable dealings.

"While I fully recognize the value to the U.S.A. of obtaining an M-24 HIND, I recommend against pursuing this particular deal because . . . the potential for causing embarrassment to the U.S. government is too great," Sullivan wrote in a top-secret memo for Weinberger in 1983.

In a recent interview, Weinberger refused to discuss any of the proposed exchanges. Although low-level Pentagon operatives saw the arms swaps or sales to Iraq as a means to obtain Soviet technology, two officials say that Weinberger

being part of a faction in the Reagan Administration that favored Iraq over Iran. "Many of us thought it would be better if Iraq won," said Weinberger, now a lawyer in private practice.

A number of classified State Department cables also describe proposals in 1982 and 1983 by William Eagleston, the senior U.S. diplomat in Baghdad, to funnel arms to Iraq through allies in the Middle East. "We can selectively lift restrictions on third-party transfers of U.S.-license military equipment to Iraq," he said in an October 1983 cable.

Although initially rejected, other documents and interviews with former U.S. officials indicate that the policy was pursued on a covert basis with Egypt, Jordan and Kuwait and that arms were transferred to Iraq.

"There was a conscious effort to encourage third countries to ship U.S. arms or acquire in shipments after the fact," said Howard Tucher, who monitored Middle East policy at the National Security Council in the Reagan Administration. "It was a policy of nods and winks."

While the American rationale was that Hussein was a buffer against Iran, classified records show U.S. support for his regime continued unabated after the official cease-fire in the Iran-Iraq War was signed in August 1988, and after Iraq's chemical weapons attack on the Kurdish villages on July 18, 1988.

In fact, in August, 1988, Deputy Secretary of State Whitehead recommended in a secret policy memo that "there should be no radical policy changes now regarding Iraq."

The pro-Iraq strategy was embraced by Bush when he became President. His Administration continued to encourage the transfer of U.S.-supplied arms to Iraq from Arab allies, according to interviews and classified documents.

In NSD 26, he said, "Access to the [Persian] Gulf and the key friendly states in the area is vital to U.S. national security." Included among these states was Iraq, and Bush ordered federal agencies to expand political and economic ties with Baghdad.

NSD 26 came at the height of attempts by the Agriculture Department and other agencies to slash the largest U.S. aid program to Iraq—the commodity loan guarantees.

Set up to help U.S. farmers increase exports, the program guarantees repayment of bank loans to foreign governments for purchases of American commodities. If the foreign government defaults on the loan, U.S. taxpayers pick up the tab.

Regulations require the Agriculture Department to allocate guarantees on the basis of the receiving country's agricultural needs, its market potential and the likelihood that the loans will be repaid. Classified documents show, however, that foreign-policy considerations played a decisive role in allocating credits to Iraq.

The Iraqis themselves raised the idea of U.S. guarantees for food and in 1983, a time when U.S. officials feared that Hussein might be overthrown because of food shortages caused by the Iran-Iraq War.

Before the year was out, the first \$482 million in Agriculture Department loan guarantees was approved for Iraq. In 1984, the amount rose to \$513 million and it eventually reached \$1.1 billion in 1988.

As the guarantees increased, so did concerns. The primary forum for airing these concerns was a little-known, interagency organization called the National Advisory Council.

Advisory Council documents show that beginning in 1983, a

number of members representing the Federal Reserve Board, Treasury Department and the Export-Import Bank counseled or voted at different times against increases of aid to Iraq. They feared that Iraq was not credit-worthy and would not be able to repay the billions owed.

Their concerns intensified when on Aug. 4, 1983, FBI and Customs Service Agents raided the Atlanta branch of an Italian bank, Banca Nazionale del Lavoro, and uncovered \$4 billion in unauthorized loans to Iraq, including \$900 million guaranteed by the Agriculture Department program.

Nevertheless, top Bush Administration officials, including Secretary of State Baker, discounted the protests in the interagency group and sought another \$1 billion in loan guarantees for Iraq in the fall of 1989, to be given in two installments.

By early 1990, Iraq had used the first \$500 million and was asking for the second installment. The NSC and the State Department pressed to have the aid released.

Again there was resistance. Iraq officials had been implicated more deeply in the growing Banca Nazionale affair and government analysts were more skeptical about Iraq's ability to repay its growing foreign debt because it was spending so much on arms.

"In the worst-case scenario, investigators would find a direct link to financing Iraqi military expenditures, particularly the Condor missile," Paul Dickerson, head of the Agriculture Department program that aided the Iraqis, wrote in a Feb. 23, 1990, memo to his superior.

Condor was an Iraqi effort to develop an intercontinental missile capable of delivering a nuclear warhead. While Dickerson later told a congressional committee that he was only speculating about the Condor, his warning reflected growing evidence that the Agriculture had had gone for military uses.

Then on March 27, 1990, the U.S. Customs Service thwarted an effort by Iraq to obtain American-made triggers for nuclear weapons. And in a speech that same month, Hussein issued his threat to "burn half of Israel." Publicly, at least, President Bush promised a crack-down on exports to Iraq, saying that "nuclear proliferation... continues to pose serious threats to U.S. interests, as well as the interests of our friends in the region."

On April 18, 1990, CIA Director Robert M. Gates, then deputy national security adviser, chaired an interagency meeting to discuss Iraq policy. At that meeting, Commerce Undersecretary Dennis Kloos presented a variety of proposals to restrict licenses of high-tech technology with potential military uses to Iraq. The proposals were rejected.

On June 8, Kloos also sent a classified memo to Gates recommending a limited proposal to tighten up controls of exports to Iraq for technology with ballistic-missile applications. That proposal was rejected as well.

Hussein had also begun his campaign of overt threats against Kuwait, accusing his tiny neighbor of economic warfare and vowing to retaliate.

Yet as late as July 9, 1990, April Champagne, the U.S. ambassador to Iraq, assured Iraq officials that the Bush Administration was still trying to get the second \$500 million released, according to a classified cable.

Only on Aug. 2, 1990, did the Agriculture Department officially suspend the Agriculture Department guarantees to Iraq—the same day that Hussein's tanks and troops swept into Kuwait.

Points is a Times staff writer and wrote a special newspaper.

Aid on the Eve of War

Classified documents obtained by The Times show a long-secret pattern of personal efforts by Bush—as President and as vice president—to support and placate Iraqi dictator Saddam Hussein. Here are some of the key incidents:

1984

■ **June:** Vice President Bush telephones the president of the Export-Import Bank and helps persuade him to approve \$500 million in loan guarantees so Iraq can build an oil pipeline.

1987

■ **Late February:** Vice President Bush telephones the new president of the Export-Import Bank and successfully lobbies for Iraq to receive \$200 million in new loan guarantees from the federal agency.

■ **March 2:** Vice President Bush meets with Iraqi ambassador Nizar Hamdoun and tells him that two requests by Iraq for sensitive American technology had been approved over objections from the Defense Department.



Associated Press

Ex-envoy Hamdoun

1988

■ **Aug. 19:** Iraq and Iran sign official cease-fire ending 8-year war.

1989

■ **Early October:** President Bush signs a secret national security directive ordering U.S. agencies to expand political and economic ties with Iraq.

■ **Oct. 31:** Secretary of State James A. Baker III telephones Agriculture Secretary Clayton K. Yeutter and persuades him to reverse Agriculture's position and approve \$1 billion in new loan guarantees to Iraq.

■ **Nov. 8:** The \$1 billion is approved despite concerns by the Treasury Department and Federal Reserve about a growing scandal involving Iraq and the Agriculture credits.

1990

■ **April 19:** White House National Security Council thwarts efforts by Commerce Department to stem the flow of U.S. technology to Iraq.

■ **July 9:** April Glaspie, U.S. ambassador to Iraq, assures officials in Baghdad that the Bush Administration is still trying to obtain the release of the second \$500 million of the \$1 billion approved in November.

■ **Aug. 2:** Iraq invades Kuwait and the Agriculture Department officially ends loan guarantees to Iraq that have amounted to \$5 billion since 1983.

LOANS: U.S. Gave Help to Baghdad in Arms Buildup

■ Foreign aid: Baker pushed through agriculture credits that helped Hussein free up money for arms.

By DOUGLAS FRANTZ and MURRAY WAAS
SPECIAL TO THE TIMES

WASHINGTON—On the last day of October, 1988, nine months before Saddam Hussein invaded Kuwait, Secretary of State James A. Baker III placed a telephone call to Agriculture Secretary Clayton K. Yeutter.

A problem had developed. Baker needed to talk with someone who could fix it.

Earlier in the month, President Bush had signed a secret national security directive ordering closer ties with Iraq and the Administration wanted to give Hussein's regime \$1 billion in new financial aid, using an Agriculture Department loan-guarantee program to do it. But program officials were balky—saying that Iraq would never repay the money. And a potential scandal was brewing over irregularities in past loans to Baghdad.

Baker's task was to bring the Agriculture Department into line. Sketching out the problem, he asked Yeutter to reverse his department's position and approve the loans, according to classified documents obtained by The Times. The agriculture secretary, today the President's senior domestic policy adviser, apparently saw the light.

"I think we're seeing it the same way you guys are," Yeutter responded, according to a handwritten note by Baker on a memo about the Oct. 31, 1988, conversation. "I'll get into it."

The new loans, pushed through at a time when U.S. intelligence reports indicated Hussein was spending heavily on developing nuclear weapons, were used by a

■ IRAQ AID PROBE

A House panel plans hearings into disclosures that Bush secretly helped Saddam Hussein build Iraq's war machine. A7

credit-starved Iraq to feed its people, freeing up its cash reserves to finance the massive arms buildup that ended in war with the United States. The Bush Administration, apparently failing to understand the Iraqi dictator's intentions, indirectly helped pay for weapons that were ultimately used against American and allied troops.

And the Agriculture Department, loans, which ultimately went had just as officials of the department and others had warned, were no aberration.

Classified documents show that Bush, first as vice president and

then as President, intervened repeatedly over a period of almost a decade to obtain special assistance for Saddam Hussein—financial aid as well as access to high-tech equipment that was critical to Iraq's quest for nuclear and chemical arms.

The policy of helping Hussein was conceived in the Ronald Reagan Administration to prop up Hussein in his long war with Iran and thus slow the spread of radical Islamic fundamentalism in the Middle East.

But the policy—and Bush's repeated personal involvement—continued well beyond the end of the Iran-Iraq war, which was concluded in the summer of 1988. And it did more than enable Hussein to survive. It helped him assemble

■ LAST OF THREE PARTS

the war machine that soon became a threat to his neighbors and to vital U.S. interests in the oil-rich Persian Gulf.

It was apparently a case of a policy pursued with head-down determination long after its original purpose had become obsolete by a President and senior officials who overestimated their own ability to influence a foreign leader. Until the eve of the Iraqi invasion of Kuwait, senior Administration officials seemed convinced that, with continued U.S. aid, they could coalesce Hussein into mending his ways.

In early October of 1988, the policy had gotten a major new push when Bush signed the top-secret National Security Decision Directive 28 ordering government agencies to expand political and economic ties with Iraq. In the weeks and months that followed, Iraq became the beneficiary of added financial aid as well as fresh access to so-called "dual use" technology—sophisticated equipment with both military and civilian applications.

White House Response

In responding to the disclosures by The Times about Bush's role in providing assistance to Iraq, a White House spokesman said that, under both the Reagan and Bush administrations, "U.S. policy toward Iraq was based on our national interest."

"Any actions undertaken by the then-vice president were in support of Administration policy," Deputy Press Secretary Roman Popaduk said. He also stressed that the U.S. stance toward Iraq "shifted dramatically" after its invasion of Kuwait. "We were in the forefront of stemming that aggression and of restoring freedom to Kuwait," he said.

In the case of the commodity loan guarantees from the Agriculture Department, Hussein used the subsidized American foodstuffs to feed his people, while using his cash reserves to buy arms.

The U.S. aid came at a critical juncture for Hussein. International bankers, alarmed by Iraq's soaring debts, its deteriorating record of repayment and its continued obsession with armaments, had cut off his credit almost everywhere.

Beyond the question of understanding Hussein's real intentions, classified documents show that Baker and Yeutter had been warned about irregularities in the Agriculture Department and program and the possibility that Iraq government officials were going to be implicated in a major banking scandal involving the program.

After its invasion of Kuwait in August, 1990, Iraq stopped paying on the loans guaranteed by the program, leaving American taxpayers with a \$2-billion bill. And last year, four Iraqi officials and the government's main commercial bank were indicted in Atlanta in a \$4-billion scandal involving the U.S. aid program.

Set up to help American farmers increase exports, the Commodities Credit Corp. of the Department of Agriculture provides government-guaranteed repayment of bank loans to foreign governments for purchases of American rice, wheat and other commodities. The Agriculture Department is supposed to allocate the credit guarantees based on the receiving country's needs, its market potential and its ability to repay the loans.

Numerous classified documents show, however, that foreign policy considerations played the decisive role in allocating credits to Iraq—and that evidence of improprieties was largely ignored. Eventually, more U.S. food aid went to Iraq during the 1980s than to any other country, except Mexico.

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A.

Might Lose War

The Agriculture Department loans began in 1983 with \$402 million. Classified documents show that the Reagan Administration feared Hussein would lose the Iran-Iraq war or be overthrown because of food shortages.

The amount of loan guarantees steadily increased each year.

By October 1988, when Bush signed NSD 26 and his Administration sought the \$1 billion in guarantees from Yettier's department—the largest lump sum ever sought for Baghdad—only the United States and Britain were still offering credit to Iraq.

At that point, however, objections inside the U.S. government involved more than Iraq's shaky finances.

On Aug. 4, 1989, FBI and Customs Service agents raided the Atlanta branch of Banca Nazionale del Lavoro, Italy's largest bank. They uncovered evidence that the branch may have made \$4 billion in unauthorized loans to Iraq—including \$800 million guaranteed by the Agriculture Department program.

Classified documents indicate that several agencies issued warnings of serious irregularities with the program—that Iraq was unlikely or unwilling to repay the debts, that the Iraqi government demanded kickbacks from American firms, that funds derived from kickbacks were used to purchase arms and that Iraqi officials were likely to be implicated in the Banca Nazionale del Lavoro scandal. (Four top Iraqi government officials and the two government-owned banks were implicated in a later indictment.)

At a meeting of a government coordinating group called the National Advisory Council on Sept. 12, 1988, Federal Reserve official Robert Emery warned that Iraq only repaid creditors when they offered greater lines of credit. He called continued requests for Agriculture Department loans to Iraq a "Ponzi-type scheme."

A year later, Agriculture Department officials noted in a confidential report that Iraqi officials had admitted demanding kickbacks and acknowledged that the Department of Agriculture funds had been diverted for military purposes. The report was sent on to the State Department, which sought to determine whether the activities were sanctioned by the Iraqi government.

The Agriculture Department responded to the Banca Nazionale controversy by trying to slash its aid to Iraq to \$400 million from the \$1 billion originally sought by the Bush Administration. Even \$400 million was too much for some officials. At a National Advisory Council meeting on Oct. 3, 1989, Treasury and Federal Reserve officials "decided to stop the aid entirely, according to minutes of the session."

The two agencies lost and the \$400 million was approved because, according to a confidential Treasury memo, the State Department was "particularly forceful in arguing that programming should go forward."

Three days later, Iraqi Foreign Minister Tariq Aziz met with Baker at the State Department and expressed alarm that Iraq might receive less than \$1 billion. Aziz warned Baker that relations between the two countries would "sour" without the full \$1 billion, according to a State Department account of the meeting. Baker promised to "look into the matter immediately."

Baker Warned

Baker had been cautioned personally about alleged irregularities in the program in a classified memo in October, which read in part: "The unfolding BNL scandal is directly involved with the Iraq CCC program and cannot be separated from it. Of the \$4 billion of unauthorized loans involved, about \$1 billion were CCC guaranteed. Treasury and the Fed, however, find it hard to believe that Iraqi Central Bank officials and others were not aware of kickbacks and other gross irregularities."

But the secretary of state was getting other advice, too.

Robert Kimmitt, undersecretary of state for political affairs, sent Baker a memo recommending that he advocate the full program and telephone Yettier to urge him to restore the full \$1 billion.

A copy of the classified memo shows that Baker initiated a section indicating that he approved the recommendation. Attached "talking points" prepared for his phone conversation with Yettier said that Baker should describe the Agriculture Department program as "crucially important to our bilateral relationship with Iraq" and say that he supported \$1 billion "on foreign policy grounds."

The document contained a caveat in which Baker assured Yettier: "Obviously, we should not go forward with the program if we have substantial evidence of a pattern of serious violations of U.S. law by high-ranking Iraqi officials."

After speaking with Yettier, Baker filed a copy of the memo on which he made a handwritten notation that Yettier had responded: "I think we're seeing it the same way you guys are. I'll get back into it."

Within days, the Agriculture Department agreed to restore the \$1 billion but Treasury and the Federal Reserve refused to go along. Edward W. Kelley Jr., one of the governors of the Federal Reserve Board, repeatedly opposed additional credits for Iraq, according to two sources. Kelley declined to comment.

A State Department memo said that Treasury and the Fed were worried because Iraq had failed to make payments to other foreign creditors and because "allegations of Iraqi wrongdoing in the BNL case, though not backed by evidence at this time, might embarrass the Administration."

But State pushed ahead. The memo said that Deputy Secretary of State Lawrence S. Eagleburger was pressing Treasury and the Office of Management and Budget, which also opposed the \$1 billion program.

Eagleburger telephoned his counterpart at Treasury, John Robson, and requested Treasury's support for the \$1 billion, according to classified documents. Robson took the unusual step of asking Eagleburger to put the request in writing. The same day, Eagleburger sent Robson a letter saying that State supported continuation of Agriculture Department credits "on foreign policy grounds."

On Nov. 8, 1989, the \$1 billion for Iraq was approved by the National Advisory Council. As a concession to the opposition, it was agreed that the money would be split into two halves. The first half would be made available immediately, the second installment only if no further problems arose from the investigation of Banca Nazionale del Lavoro.

In a classified memo dated Nov. 9, Kimmitt, who is now U.S. ambassador to Germany, boasted to Baker: "Your call to Yettier and our subsequent efforts with OMB and Treasury paid off." Kimmitt suggested that Baker "break the good news" to Aziz.

Two days later, the State Department sent a cable to April Glaspie, U.S. ambassador to Iraq, instructing her to present a private message from Baker to Aziz telling him "this decision by the Administration reflects the importance we attach to our relationship with Iraq."

More Aid

By early 1990, Iraq had used the first \$500 million in credits and was asking for a second installment of \$375 million. By that time, additional evidence had surfaced in the investigation of the Italian bank implicating Iraqi officials more deeply. Government analysts also were more skeptical about Iraq's ability to repay its growing foreign debt because of continued military spending and other problems.

In May, the Agriculture Department decided to suspend the loan guarantee program without releasing the second installment. The decision was not made public but key members of Congress acknowledged that they were briefed about the plan.

The Agriculture Department made the decision after, as one current department official said, "all the worst fears [about the program] were realized: fraud and mismanagement, kickbacks, diversion of funds for the military."

But documents show that the National Security Council and the State Department still pressed for the additional half-billion dollars.

On May 29, 1990, the NSC met to consider the question. According to a classified account, the "meeting has been initiated by NSC staff because they want to prevent the CCC credit program from being canceled as it would exacerbate the already strained foreign policy relations with Iraq."

NSC officials pressed to continue the program although the Agriculture Department had already drafted a press release saying that the loan program had been suspended because of "improprieties."

As late as July 9, Glaspie was assuring Iraqi officials in Baghdad that the Administration was trying to get the second \$500 million released, according to classified documents.

Ongoing Debate

On Aug. 2, 1990, the day tanks swept into Kuwait, the Administration was still debating whether to provide Hussein with the second installment of guarantees.

There was one more twist in tale.

In the weeks after the invasion, Congress questioned whether Bush Administration had been forceful enough in letting Saddam Hussein know that it opposed his belligerence in the months leading up to the invasion.

On Sept. 23, 1990, Baker defended the Administration on television, saying that a number of signals had been sent to Hussein indicating opposition to his threat. "Signal No. 1 was to slap foreign policy export controls on exports Iraq," Baker said. "Signal No. 2 was to cancel or suspend the Commodity Credit Corp. program."

Frederic is a Times staff writer in Washington and was a special correspondent.

Abuses in Iraqi Aid Program Overlooked

■ **Mideast: The Bush Administration pushed for more assistance despite evidence of kickbacks and food-for-arms trading.**

By MURRAY WAAS
and DOUGLAS FRANTZ
SPECIAL TO THE TIMES

WASHINGTON—The Bush Administration ignored evidence that a \$5-billion American aid program for Iraq was riddled with bribery and that food intended for hungry Iraqis may have been traded for weapons, according to classified government documents and interviews.

Beginning in 1980, Administration officials learned that Saddam Hussein's regime had demanded millions of dollars in bribes from American exporters of commodities, the documents indicate. The commodities had been sent to Iraq as part of a food aid program underwritten by the U.S. government.

Senior Administration officials, including Secretary of State James A. Baker III, were warned of such abuses in the fall of 1980, but still pushed through \$1 billion in new government loan guarantees to allow Iraq to buy more agricultural products, classified documents show.

Two Administration officials said the warnings culminated in a highly classified intelligence report in July, 1980—a month before Hussein's troops overran Kuwait. The report said a Jordanian entrepreneur heavily involved in the U.S. aid program also was assisting Iraq's covert arms-procurement network, according to the officials who read the report.

At the same time, Iraq threatened to stop making payments on \$3 billion it owed on previous loans guaranteed by the United States unless new aid was approved, according to classified records.

Despite the intelligence findings and the Iraqi threat, documents show that the State Department and the White House National Security Council continued to seek the release of a final \$500 million in aid for Baghdad.

The disclosures represent the first suggestion that American food aid may have been bartered by Iraq to buy weapons, and they provide new details on the extent of the warnings about widespread irregularities in the aid program. They also illustrate the determination within the Administration to continue assistance to Iraq in the face of evidence of abuses.

That determination continued even after an Agriculture Department investigation completed in April, 1980, was unable to conclude that millions of dollars of commodities shipped through the Jordanian

port of Aqaba were ever delivered to Iraq. The department's Commodity Credit Corp. had financed the food purchases for Baghdad.

While the intelligence report did not directly link arms deals to food aid, an Administration official said the Jordanian businessman's dual role as an arms trafficker and food middleman should have been "sufficient evidence" that aid was being traded for weapons.

The Administration maintains publicly and privately that it has no evidence that U.S. food aid was diverted for arms by Iraq.

In an interview, however, a Jordanian businessman who was involved in the CCC program said he has firsthand knowledge that aid had been diverted by Iraq as early as 1980.

The businessman, who asked that his name be withheld, said Iraqi officials had bartered U.S. food aid to the Soviet Union in exchange for a shipment of Soviet tanks in 1980. The food was shipped to Aqaba and then shipped to the Soviet Union instead of being taken overland to Iraq, he said.

Until Iraq invaded Kuwait on Aug. 2, 1990, the CCC program remained an integral part of President Bush's policy of assisting Saddam Hussein in hopes of softening the Iraqi dictator's threats to his neighbors.

The first allegations that Iraq was demanding bribes from American exporters who wanted to do business with Baghdad under the

"In almost every case, the records document shipments as far as the ocean port but contained little or no record of the overland portion of the shipments to Iraq."

AGRICULTURE DEPARTMENT REPORT

CCC program surfaced in November, 1980, according to a report detailing an Agriculture Department investigation of the charges in 1980.

"USDA had been informed that at least one Iraqi state trading enterprise had been routinely requesting that exporters provide either cash rebates or goods, either in the form of additional commodities or non-agricultural items, as so-called 'after-sales' service in the form of trucks and truck parts," said the report.

Despite an Iraqi pledge to end such practices in 1980, Iraq continued to demand kickbacks. U.S. exporters complained repeatedly to the Agriculture Department that they were forced to give Iraq spare parts with military uses, such as armored trucks, and other bribes in order to sell goods to the Gulf state under the CCC program.

For instance, in a Sept. 7, 1980, letter to the department, a lumber exporter complained of increasing pressure by Iraq to provide free trucks, trailers and tires as the price of continued business.

"The recent telex requests [from Baghdad] have exhibited extraordinarily threatening language, where the future business relations are being judged by our response to requests for free goods," said the letter.

Later court records show that Iraq also was demanding cash from U.S. exporters. Six U.S. tobacco companies pleaded guilty in 1980 to paying more than \$1.5 million in kickbacks to Iraq. The funds were transferred to foreign bank accounts, some of which were in countries that had supplied Iraq with arms, such as Bulgaria, France, Germany and Italy.

About the same time that concerns were rising over the kickbacks in 1980, federal agents raided the Atlanta branch of Italy's Banca Nazionale del Lavoro. They seized evidence that the branch had made \$4 billion in fraudulent loans to Iraq and firms doing business with Iraq. About \$900 million of the loans was guaranteed by the U.S. government through the CCC program.

Allegations of wrongdoing in the program became so disturbing that the Agriculture Department and three other federal agencies recommended sharply curtailing or even halting the loan guarantees to Iraq.

Secretary of State Baker was personally warned in a classified memo that officials at the Treasury Department and the Federal Reserve "find it hard to believe" that Iraqi government officials "were not aware of kickbacks and other gross irregularities" in the CCC program.

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But the Administration, led by Baker, successfully fought off any cuts and pushed through another \$1 billion in aid.

The only caveat was that the new aid would be divided into two \$500 million payments. The second payment would be released as long as no substantial Iraqi government involvement was uncovered in the Banca Nazionale investigation in Atlanta, according to documents.

At that point, the National Security Council was monitoring the progress of the Banca Nazionale investigation, according to documents and interviews. Other records show that plans by the U.S. attorney's office in Atlanta to indict top Iraqi officials and two government-owned banks in the fraud scheme were delayed for more than a year.

The NSC was keeping an eye on the internal Agriculture investigation into possible diversion of CCC food by Iraq too.

When a draft of the Agriculture Department's report was completed in the spring of 1990, documents show that it was sent to Timothy Deal, a senior director at the NSC, as well as to Undersecretary of State Richard T. McCormack. A cover letter said the draft was provided to the other agencies "for your review and clearance."

A copy of the draft obtained by The Times shows that Agriculture Department investigators concluded that Iraq continued to demand kickbacks. But the most explosive allegation addressed by the investigators was that agricultural commodities were diverted and sold before they ever reached Iraq.

The report noted that "geographically, Iraq is almost entirely landlocked," and that during the Iran-Iraq War, its only large port city was closed to international shipping because of the fighting. As a result, Iraq had the commodities shipped to Aqaba as well as to Turkish ports, from which they were transported overland to Iraq.

The investigators had inspected shipping records for CCC goods at the foreign ports, but they found the trail ended there.

"In almost every case, the records document shipments as far as the ocean port but contained little or no record of the overland portion of the shipments to Iraq," said the report.

The department asked Iraqi officials to provide documents on a handful of the thousands of CCC transactions so they could be translated and reviewed. Even those few records were not scrutinized, said the report, because they were in Arabic and Turkish and could not be translated.

The final report sent to Congress, after having been reviewed by the NSC, concluded that there was no evidence that foodstuffs and commodities sent to Iraq under the CCC program were diverted or did not end up in Iraq.

One Administration official said in an interview that he disagreed with the findings. "The facts that our own investigators uncovered did not square with the conclusion," he said. The official added that his superiors did not want to acknowledge that they "had sent \$5 billion of commodities to Iraq, and they had no system in place to confirm their rightful delivery."

The official said that if the report had concluded there had been a massive diversion of food aid, it almost certainly would have caused the cancellation of the CCC program.

On May 21, 1990, the Agriculture Department drafted a press release and began preparing to brief members of Congress that it planned to suspend the last \$500 million in food aid for Iraq. But NSC intervened to stop the suspension. A classified memo said that on May 28, NSC staff members called a meeting "because they want to prevent the [loan program] from being canceled, as it would exacerbate the already strained foreign policy relations with Iraq."

Evidence that a prominent middleman in the CCC food program was involved in Iraqi arms trafficking soon surfaced in a widely circulated, highly classified intelligence report.

The July, 1990, report said that Jordanian businessman Wafai Dajani and a company he heads, Amman Resources, had covertly purchased arms for Hussein's regime, according to two officials who read the report. It also said Dajani had served as a middleman in arranging arms purchases for Iraq from private arms brokers in Portugal and Cyprus, said the officials.

Dajani's company received shipments of CCC-guaranteed commodities in Aqaba, stored them and was responsible for sending them on to Iraq. Federal investigators say Dajani was one of the most prominent middlemen involved in the CCC program.

Because of the high classification of the intelligence report, the two Administration officials declined to discuss its details. But they said it did not directly link Dajani's arms deals to exchanges of CCC aid.

Even so, one of the officials said that Dajani's prominent involvement with the CCC program and his alleged role as an arms trafficker should have set off alarm bells within the Administration, where the intelligence report was circulated widely.

Dajani has not been accused of any wrongdoing. Attempts to reach him in Jordan were unsuccessful.

A classified State Department report identifies Dajani as a confidant of Jordan's King Hussein and the brother of a former Jordanian interior minister. Other records show that he served as a middleman on many of the loans made to Iraq by the Banca Nazionale branch in Atlanta.

As indictments were being finalized in the Banca Nazionale case, the Justice Department queried the State Department about the foreign policy implications of possibly charging Dajani.

The State Department, while warning that an indictment of Dajani would be "seen as a further U.S. attempt to punish Jordan" for siding with Iraq in the Gulf War, also noted in its memo that an indictment "would serve legitimate law enforcement interests."

But when the U.S. attorney general finally announced the Banca Nazionale indictment on Feb. 28, 1991, Dajani was not among those charged. He has since been identified in federal court records as an unindicted co-conspirator in the Banca Nazionale case.

Dajani remains a target of the inquiry, according to law enforcement officials.

The Treasury Department said Dajani has been involved in continuing efforts by Iraq to ship goods to Baghdad through Jordan and evade the United Nations embargo imposed in August, 1990.

Administration officials acknowledged that some illicit goods are still passing through Jordan for Iraq despite the U.N. sanctions.

"There has been an active discussion involving the overall sanctions regime and Jordan, from the President down to [CIA Director] Bob Gates," said an Administration official. "But a very small portion of the discussion focused on arms. Since August, 1990, no significant arms shipments have gone to Iraq."

Wara is a special correspondent and Frantz is a Times staff writer.

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Gonzalez's Iraq Exposé

Hill Chairman Details U.S. Prewar Courtship

By George Lardner Jr.
Washington Post Staff Writer

Almost every Monday for the past couple of months, Rep. Henry B. Gonzalez (D-Tex.), the senior chairman of the House Banking Committee, has been setting the Bush administration's teeth on edge with fiery exposés about its courtship of Iraq before the invasion of Kuwait in August 1990.

So far, hardly anyone has been listening. Gonzalez's "special orders"—as such uninterrupted speeches are called—are delivered to a virtually empty House floor. But they are full of excruciating detail—much of it classified "secret" and "confidential"—that could haunt the White House before this election year is over.

Gonzalez's charges are simple and direct: Senior Bush administration officials went to great lengths to continue supporting Iraqi President Saddam Hussein and his unreliable regime long after it was prudent to do so.

U.S. officials insisted in 1989, for instance, on playing down the importance of a scandal involving an Atlanta-based bank and more than \$5 billion in unauthorized loans to Iraq, including \$900 million guaranteed by the U.S. government. They even intervened in the case to prevent indictment of the Central Bank of Iraq while the Persian Gulf War was raging.

Despite stiff opposition from some officials inside the administration, senior policymakers pushed ahead with \$1 billion in fresh agricultural credits for Iraq under a Commodity Credit Corp. program. They also pressed for continued Export-Import Bank financing despite congressional sanctions and kept sharing intelligence information with Baghdad until a few weeks before Iraq's invasion of Kuwait.

Then, in the wake of the Gulf War when Congress began demanding more information about the prewar conduct of U.S. policy toward Iraq, administration officials tried to hide their embarrassment under a cloak of national security and created what Gonzalez has called a "cover-up mechanism" to keep investigators at bay.

Administration officials strenuously contest the accusations of impropriety and illegality, but they plainly would rather not talk about them at all. So far, they have sent only muted complaints to Capitol Hill about Gonzalez, by way of the House Republican minority, even though, House aides say, the Texas congressman has plunked more classified documents into the Congressional Record than anyone since the Vietnam War.

"We have received no formal communication from the administration on the issue," said a spokesman for House Speaker Thomas S. Foley (D-Wash.).



REP. HENRY B. GONZALEZ
...uses "special orders" as platform

The centerpiece of the controversy is the scandal involving the Italian government-owned Banca Nazionale del Lavoro (BNL). It broke open on Aug. 4, 1989, when FBI agents and Federal Reserve officials, tipped off by two bank executives, raided BNL's Atlanta branch and confiscated thousands of documents. The branch had become Iraq's principal source of credit in the United States between 1984 and 1989, a period in which Iraq's eight-year-long war with Iran had turned Saddam's regime into a cash-starved and unreliable debtor.

According to interviews with knowledgeable officials, records made public by Gonzalez and documents obtained from other sources, it was soon apparent that Iraq was involved in a massive fraud to pump billions of dollars in illegal loans and credits out of BNL-Atlanta, far above the amounts reported to the Federal Reserve.

About half of the money allegedly went to finance the purchase of U.S. farm products, including \$900 million guaranteed by the Agriculture Department's Commodity Credit Corp., but investigators said much of the rest had helped fuel Iraq's military buildup.

U.S. Customs Service reports dated Sept. 21, 1989, and Oct. 20, 1989, pointed out that BNL was suspected of financing shipments of industrial machinery, military-type technology and various controlled chemicals to Iraq and providing loans to various U.S. firms for the illegal export to Iraq of missile-related technology.

Federal prosecutors in Atlanta anticipated quick indictments. In Washington, records show, Agriculture Department officials learned in early October 1989 that the evidence indicated their \$1 billion-a-year CCC program for Iraq was riddled with corruption, including kickbacks and bribes demanded by Iraqi government agencies and questionable consulting fees for Iraqi front companies in the United States.

There were also allegations, still unresolved, that food shipments destined for Iraq under the loan program never got there and may have been diverted to other countries in exchange for cash or goods. Investigators say they now believe some food may have been traded for weapons or Soviet bloc military assistance.

More Credits Urged

Despite that, Agriculture officials recommended an "interim" \$400 million in additional food credits be granted Iraq under the CCC program, and this was approved by an interagency council Oct. 4, 1989, over the opposition of the Federal Reserve and Treasury representatives. A confidential State Department memo minimized the objections of the two agencies, saying they were made "at the behest" of the Office of Management and Budget, which State suggested was taking its role as "watchdog against scandal" too seriously.

But Iraq rejected the \$400 million as insultingly low—Baghdad had received \$1.1 billion the year before—and said such a relatively small amount would be "widely viewed as a U.S. vote of no confidence in Iraqi debt policy." On Oct. 6, according to a secret cable, Secretary of State James A. Baker III assured complaining Iraqi Foreign Minister Tariq Aziz at a meeting here that he would "look into the matter immediately."

BNL officials in Rome, faced with parliamentary demands for an investigation there, were also getting worried. On Oct. 19, 1989, according to a State Department cable, BNL's chairman and its director-general called on U.S. Ambassador Peter F. Secchia and "suggested that the matter should be raised to a political level." They said they wanted to cooperate fully with U.S. authorities "while at the same time making it fairly clear they want to achieve some kind of damage control."

Sometime that same month, President Bush stepped into the fray, issuing National Security Directive 26 (NSD-26). Gonzalez said the order has been withheld from his committee on grounds of executive privilege, but other documents show that it ordered "pursuit of improved economic and political ties with Iraq." A report to Baker, dated Oct. 26, 1989, cited the directive in recommending approval "on foreign policy grounds" of a \$1 billion CCC program for Iraq, to be paid in two installments in light of the BNL investigation.

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The report warned that the bank fraud "may also involve several high Iraqi officials," but emphasized: "Iraq is now our ninth largest customer for agricultural commodities. . . . Our ability to influence Iraqi policies in areas important to us, from Lebanon to the Middle East peace process, will be heavily influenced by the outcome of the CCC negotiations."

Baker Called Yeutter

Baker called then-Secretary of Agriculture Clayton Yeutter and urged him to go forward with the \$1 billion program. Deputy Secretary of State Lawrence S. Eagleburger made similar appeals to Treasury and OMB, explaining in one note that "the CCC program is important to our efforts to improve and expand our relationship with Iraq, as ordered by the President in NSD-26."

The full \$1 billion was approved at a high-level interagency council meeting on Nov. 8, 1989. According to a confidential memo, Treasury, the Federal Reserve and OMB still felt that "allegations of Iraqi wrongdoing in the BNL case, though not backed by evidence at this time, could eventually embarrass the administration." But once again, the State Department representative invoked NSD-26 and said that "to abruptly terminate the [CCC] program would. . . clearly run counter to the president's intention."

Alarmed by Baghdad's human rights abuses such as the gassing of Kurdish villages in northern Iraq, Congress later that month enacted limited sanctions against Iraq, prohibiting Export-Import Bank financing without a presidential waiver. The State Department quickly drafted one and Bush signed it Jan. 17, 1990, declaring that a prohibition on Ex-Im loan guarantees for Iraq—essentially a \$200 million revolving credit line—would not be "in the national interest of the United States."

Around that time, other documents show, prosecutors in Atlanta were planning to bring an indictment in February and wanted to arrange interviews abroad of some "essential witnesses," especially in Turkey. The interviews never came about, for reasons that are not yet clear. Justice Department officials in Washington say they stepped into the case in February 1990 in view of its international implications. Not until a year later—on Feb. 28, 1991, the day after Bush ordered a cease-fire in the Gulf War—were charges formally brought.

"It was a very complex case," said Gerrilyn Brill, first assistant U.S. attorney in Atlanta. "There is no connection between any failure to meet our expected dates in the indictment and foreign policy considerations."

Brill is in charge of the case because the U.S. attorney in Atlanta, Joe D. Whitley, appointed in the summer of 1990, disqualified himself. He came from a firm that represented Matrix-Churchill of Ohio, an Iraqi front company and machine tool manufacturer named in the indictment as one of the recipients of BNL loan money.

"It's just a matter of happenstance," Laurence A. Urgenson, acting deputy assistant attorney general, said of Whitley's Matrix-Churchill connection. Urgenson, who worked closely on the case as chief of the Justice Department's criminal fraud section, said "people keep linking things together that don't link. You have no idea how unrelated the war was to what we were doing. We indicted the day we were finished."

Credits Finally Cut

The Agriculture Department finally halted the CCC loan program in May 1990 as relations with Saddam were deteriorating, but by then, half the \$1 billion in credits had already been used.

Documents indicate the cutoff came after a May 29 meeting of the National Security Council deputies committee. A secret State Department options paper prepared for the session listed other actions that could be taken against Iraq and noted that U.S. intelligence was still providing Baghdad "with limited information on Iranian military activity that would be missed."

It is not clear when that intelligence-sharing relationship was terminated. A knowledgeable official said intelligence sharing was not discussed at the NSC meeting.

Months later, with the BNL indictment imminent, prosecutors wanted to name the Central Bank of Iraq as a defendant, a step they said would allow them to freeze \$1.5 billion in Iraqi assets. Top lawyers from the State Department, the Federal Reserve and other agencies successfully opposed the move as a dangerous precedent that could invite similar action by other countries against the Fed.

In a separate memo, the State Department, apparently anticipating Saddam's downfall, expressed additional reservations, saying the Iraqi central bank "will be an important element in any reconstruction regime." The memo also noted with apparent satisfaction that "contrary to press reports, Saddam's son-in-law, Hussein Kamal, was not on the list of those to be indicted. He has been named, instead, as an unindicted co-conspirator."

The 347-count indictment accused three officers of BNL-Atlanta, two of whom pleaded guilty last Friday, of conspiring with four Iraqi officials in what amounted to a rogue operation to defraud BNL of more than \$5 billion without the knowledge or approval of higher-ups in the Italian bank. According to one Justice Department memo, the main defendant in the case, Christopher Drogoul, who ran BNL-Atlanta, has accused higher-ups in Rome of complicity, but prosecutors rejected his claims as "spurious." The trial is set for June 1.

Staff researcher Robert Thomason contributed to this report.

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DOCUMENTS CHARGE PREWAR IRAQ SWAP: U.S. FOOD FOR ARMS

BANK FRAUD AND BRIBERY

Shipments Diverted to Turks,
Jordanians and the Soviet
Bloc, Investigators Say

By DEAN BAQUET

For more than two years the United States Government has had evidence that Iraq, in the months before it invaded Kuwait in August 1990, diverted food purchased under a \$5 billion American aid program and exchanged it for money and arms in the Soviet bloc and in other countries.

Iraq may have used some of the money, one high-level American Government official wrote in an Oct. 13, 1989, confidential document, to acquire "sensitive nuclear technologies."

A team of Department of Agriculture investigators confronted high-ranking members of Saddam Hussein's Government with some of these accusations that same month.

The team also complained that Iraqi officials were repeatedly demanding bribes from many big American agricultural businesses selling food to Iraq, which was using money lent through the American aid program to buy it. In some instances the Americans paid those bribes, the investigators said.

Accusations of Bank Fraud

Finally, the team charged that all these undertakings were part of a multibillion-dollar bank fraud in the United States that Iraq was engaged in to help finance the rebuilding of Saddam Hussein's military power.

The Iraqis indignantly denied the accusations, and to the astonishment of American law-enforcement officials who were investigating the case, the Bush Administration expanded the aid program with another half a billion dollars in guaranteed loans. Direct losses from those loans, which were backed by the Commodity Credit Corporation of the Agriculture Department, ultimately cost American taxpayers at least \$400 million.

Documents made available to The New York Times and interviews with law-enforcement officials provide many specific details of the charges that Iraq manipulated the agricultural aid program. Since the Persian Gulf war began, the story of the Bush Administration's prewar courtship and assistance of Iraq has been emerging through news reports and Congressional committees. The Los Angeles Times reported last month, for example, that food intended for Iraq may have been traded for weapons and that Iraq was demanding bribes from American exporters.

Recently obtained documents and interviews suggest that Soviet bloc nations, as well as Jordanians and Turks participated in the subversion of the aid program. The documents also suggest that nuclear technology reached Iraq through the aid program.

None of these accounts makes clear how much food may have been converted to cash or arms.

Officials in charge of the Commodity Credit Corporation declined to be interviewed because they say the suspected Iraqi corruption is still under investigation. In 1991, some high-ranking Iraqi officials, along with executives of the Atlanta branch of the Bank Lavoro, Iraq's principal lender under the aid program, were indicted on charges that they participated in a multibillion-dollar bank fraud.

The State Department also declined to comment, but it has repeatedly said that aid was provided to Iraq to counterbalance Iran, as a way to stabilize the Middle East. While not commenting on any of these specific accusations directly, President Bush has said the United States originally tried to help Iraq because of its war with Iran. After the war ended in 1988, he said, his Administration tried to bring Iraq into "the family of nations." These attempts failed, Mr. Bush said, and the United States then helped organize the military force that halted Iraqi aggression.

Accusations Set Out In Meeting's Minutes

The accusations that Iraq used American aid to build its military force were discussed in an Oct. 13, 1989, meeting in the Agriculture Department. The participants included lawyers and other officials of the Commodity Credit Corporation, under which the Government cosigns bank loans for poor countries that want to buy millions of dollars worth of grain, corn and other farm products. The Government agrees that if the country defaults, it will repay the bank up to 98 percent of the loan amount, as well as a portion of the interest.

The minutes of the meeting quote the participants as saying, "Although additional research needs to be done, it appears more and more likely that C.C. guaranteed funds and/or commodities may have been diverted from Iraq to third parties in exchange for military hardware."

According to the minutes, the Department of Agriculture's Inspector General was "concerned that commodities were bartered in Jordan and Turkey for military hardware." Additionally, the minutes quote another participant as saying that law-enforcement officials had "some indication that diverted funds (and possibly direct bank-lent funds) were used to procure nuclear-related equipment."

"Noted in particular," the minutes continued, "were a 'nuclear fuel compounder' and a 'nose cone burr.'"

The participants, who included some top legal officials of the Agriculture Department, also said illegal "payments required by Iraq of exporters wishing to participate in the Iraqi market may have been diverted into acquiring sensitive nuclear technologies." American businessmen, they said, had complained that the Iraqis would not let them sell their products in Iraq unless they provided cash, trucks, spare parts and other equipment. Some companies did so, and those that would not go along, the minutes asserted, "were apparently kept on a black list and not allowed to participate in the Iraqi market."

The documents did not identify the American companies, and investigators declined to.

Law-enforcement agents and other Government officials spoke in interviews of additional evidence, based on information obtained from intelligence operatives and others, that some food was diverted to some bloc nations and traded there for weapons. They did not, however, identify these nations. This charge was not contained in the minutes of the Oct. 13 meeting.

Bank in Atlanta Financed Iraqis

Iraq's participation in the aid program began in 1983, and by 1989 it was receiving \$1.1 billion in annual loan guarantees, making it by far the biggest participant in the program.

At the heart of most of the Iraqi financial operations in the United States was Bank Lavoro, which is largely owned by the Government of Italy. The Italian Government has insisted that it did not know of these illegalities.

Bank Lavoro's Atlanta branch was headed by an ambitious banker named Christopher Drogoul and was actually more of a broker than a bank. It used its high credit rating to borrow money from other banks, then turned around and lent it to Iraq at a higher interest rate.

The Rome headquarters office approved the initial loans to Iraq, law-enforcement officials said. But, fearing too much exposure to a country whose economy was still reeling from an eight-year war with Iran, it declined to let the branch make others, the Italian officials said.

Initially, American law-enforcement officials and defense lawyers in the Bank Lavoro case say, Mr. Drogoul sought business by courting Iraqi bureaucrats in expensive restaurants in Atlanta, Washington and New York. On one occasion, he is said to have spent \$4,000 taking an Iraqi official and his wife on a one-day shopping spree in Washington.

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Before long the tables turned. Investigators say Mr. Drogoul managed to get American and multinational business people to court him, and he began receiving bribes from them, in return for the promise of doing business with Iraq.

A 347-count indictment returned last year asserts that Mr. Drogoul continued borrowing money from American and other international banks and lending it to Iraq. According to the indictment, Mr. Drogoul kept track of his unauthorized loans in a separate log known as the "gray book."

The indictment charges that he was induced in part by hundreds of thousands of dollars in cash and gifts he received from the Iraqis and multinational companies that wanted to sell them food. Entrade International Ltd., a New York subsidiary of a giant Turkish company, the Enka Holding Investment Company, is named in the indictment as one such company and investigators said other companies are still under investigation.

Both Mr. Drogoul and Entrade have denied the accusations.

Among the major recipients of Mr. Drogoul's loans was Matrix Churchill, a Cleveland computer and machinery company that the Federal Government says was, in fact, secretly owned by Iraq. Customs officials in Cleveland, who shut Matrix Churchill shortly before the start of the Iraqi war, are investigating whether the machinery Matrix Churchill shipped to Iraq was designed or used for weapons.

Jordan Businessman A Principal Figure

Court records identify Mr. Drogoul's ally in the dealings as Wafai Dajani, an American-educated Jordanian businessman with intelligence and business connections throughout the Middle East and the United States.

Mr. Dajani's brother is a former intelligence chief and interior minister in Jordan. Mr. Dajani himself often boasted of his contacts in the State Department and the Central Intelligence Agency. Indeed, Government officials say Mr. Dajani was important in persuading some people in the Bush Administration to continue making loans to Iraq, even as the evidence of corruption mounted.

Mr. Dajani was the principal shipper of the food bought with American aid. The Iraqi Government gave him the right to ship virtually all the produce sold by the American food companies from the Port of Houston. Mr. Dajani said he used trucks to

take the food through Jordan to Iraq. Representative Henry B. Gonzalez, the Texas Democrat who is chairman of the House Committee on Banking, Finance and Urban Affairs, which is investigating the Bank Lavoro scandal, has accused Mr. Dajani of helping Iraq acquire arms. Mr. Dajani denies the charge.

Gail McKenzie, the assistant United States Attorney in Atlanta, who is conducting the Bank Lavoro inquiry, said Mr. Dajani was a target of the investigation.

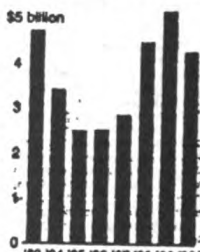
In a telephone interview from his home in London, Mr. Dajani denied arms dealing and said his name came up in the Bank Lavoro investigation only because of overzealous prosecutors. He also said the inquiry was fueled by anti-Arab sentiments.

Last month, The New York Times reported that some officials wanted to include Mr. Dajani in the original indictment. After the State Department pointed out that charging Mr. Dajani would infuriate King Hussein of Jordan, he was not charged. The King and Mr. Dajani are friends. Ms. McKenzie said the decision not to indict Mr. Dajani was made by prosecutors.

Cosigning for Iraq

Value of export credit guarantees approved by the Commodity Credit Corporation, intended to help poor nations buy American food exports:

■ Iraq ■ All other countries



*Includes \$1.05 billion granted under the Blanded Credit Program, which combines direct loans with loan guarantees.

Source: Department of Agriculture

The New York Times

Alarm Bells Ring At High Levels

In the summer of 1989, the Bank Lavoro fraud came to a crashing end. Two American employees of the branch, fearful that they might get caught, walked into the offices of the United States Attorney in Atlanta and offered to cut a deal. On Aug. 4, a team of F.B.I. agents and examiners from the Federal Reserve Bank swarmed through the branch and carried away boxes of documents, including Mr. Drogoul's "gray book."

Law-enforcement officials in Atlanta thought they had solid evidence in a case that would be easy to prosecute.

In Washington, Baghdad and Rome, however, the raid set off a series of policy meetings at the highest levels. Intelligence and diplomatic officials who insisted on anonymity said cables shot back and forth, and the C.I.A. and the State Department began fretting about the impact a prosecution would have on U.S.-Iraqi relations.

"We were trying to make friends with the Iraqis, and indicting somebody is not a way to make friends with them," said one Federal agent who said he became frustrated by the involvement of Washington.

According to Government documents made public by Representative Gonzalez, Foreign Minister Tariq Aziz of Iraq met with Secretary of State James A. Baker 3d on Oct. 6, 1989, and made it clear that his Government was upset about being brought into an American bank scandal.

The State Department's notes of that meetings quote Mr. Aziz as saying: "This was not a sign that the U.S. wanted improvement in relations. It is in fact a setback and the Government of Iraq is very unhappy."

Shortly afterward, Mr. Baker paid a call on Agricultural Secretary Clayton K. Yeutter and asked him to give additional aid to Iraq, according to a document made public by Mr. Gonzalez.

Iraq had asked for another \$1 billion in loan guarantees for 1990. Over the objections of law-enforcement officials investigating the case, the Administration decided to provide half that amount, with the agreement that the second installment would come if the investigators concluded high-ranking Iraqis were not involved in the fraud.

At the time, according to law-enforcement officials, defense lawyers, and others involved in the investigation, it was clear from the very beginning that high-level Iraqis were involved.

The negotiations ended when Mr. Hussein invaded Kuwait.

2 of 2

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JH

 Essay

WILLIAM SAFIRE

Crimes Of Iraqgate

WASHINGTON

Americans now know that the war in the Persian Gulf was brought about by a colossal foreign-policy blunder: George Bush's decision, after the Iran-Iraq war ended, to entrust regional security to Saddam Hussein.

What is not yet widely understood is how that benighted policy led to the Bush Administration's fraudulent use of public funds, its sustained deception of Congress and its obstruction of justice.

As the Saudi Ambassador, Prince Bandar, was urging Mr. Bush and Mr. Baker to buy the friendship of the Iraqi dictator in August 1990, the F.B.I. uncovered a huge scam at the Atlanta branch of the Lavoro Bank to finance the buildup of Iraq's war machine by diverting U.S.-guaranteed grain loans.

Instead of pressing the investigation or curbing the appeasement, the President turned a blind eye to lawbreaking and directed another billion dollars to Iraq. Our State and Agriculture Departments' complicity in Iraq's duplicity transformed what could have been dealt with as "Saddam's Lavoro scandal" into George Bush's Iraqgate.

The first element of corruption is the wrongful application of U.S. credit guarantees. Neither the Commodity Credit Corporation nor the Export-Import Bank runs a foreign-aid program; their purpose is to stimulate U.S. exports. High-risk loan guarantees to achieve foreign-policy goals unlawfully endanger that purpose.

Yet we now know that George Bush personally leaned on Ex-Im to subvert its charter — not to promote our exports but to promote relations with the dictator. And we have evidence that James Baker overrode worries in Agriculture and O.M.B. that the law was being perverted: Mr. Baker's closest aide, Robert Kimmett, wrote triumphantly, "your call to ... Yeutter ... paid off." Former Agriculture Secretary Clayton Yeutter is now under White House protection.

Second element of corruption is the misleading of Congress. When the charge was made two years ago in this space that State was improperly intervening in this case, Mr. Baker's top Middle East aide denied it to Senate Foreign Relations; meanwhile, Yeutter aides deceived Senator Leahy's Agriculture Committee about the real foreign-policy purpose of the C.C.C. guarantees. To carry out Mr. Bush's infamous National Security Directive 26, lawful oversight was systematically blinded.

Third area of Iraqgate corruption is the obstruction of justice. Atlanta's assistant U.S. Attorney Gail McKenzie, long blamed here for foot-dragging, would not withhold from a grand jury what she has already told friends: that indictment of Lavoro officials was held up for nearly a year by the Bush Criminal Division. The long delay in prosecution enabled James Baker to shake credits for Saddam out of malevolent Agriculture appointees.

When House Banking Chairman Henry Gonzalez gathered documents marked "secret" showing this pattern of corruption, he put them in the

Who will prosecute the faithless prosecutors?

Congressional Record. Two months later, as the media awakened, Mr. Bush gave the familiar "gate" order: stonewall.

"Public disclosure of classified information harms the national security," Attorney General William Barr instructed the House Banking Committee last week. "... in light of your recent disclosures, the executive branch will not provide any more classified information" — unless the wrongdoing is kept secret.

"Your threat to withhold documents," responded Chairman Gonzalez, "has all the earmarks of a classic effort to obstruct a proper and legitimate investigation ... none of the documents compromise, in any fashion whatsoever, the national security or intelligence sources and methods."

Mr. Barr, in personal jeopardy, has flung down the gauntlet. Chairman Gonzalez tells me he plans to present his obstruction case this week to House Judiciary. Chairman Jack Brooks, probably flanked by Representatives Charles Schumer and Barney Frank, members of both committees.

"I will recommend that Judiciary consider requiring the appointment of an independent counsel," says Mr. Gonzalez, who has been given reason to believe that Judiciary — capable of triggering the Ethics in Government Act — will be persuaded to act.

Policy blunders are not crimes. But perverting the purpose of appropriated funds is a crime; lying to Congress compounds that crime; and obstructing justice to cover up the original crimes is a criminal conspiracy. □

New York Times
5/18/92

AFTER THE L.A. RIOTS: IN SEARCH OF AN URBAN POLICY

MAY 18,
1992

U.S. News & WORLD REPORT

MAY 18, 1992

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SPECIAL REPORT
SENATE REFERENCE CENTER

IRAQ GATE



How the Bush administration helped
finance Saddam Hussein's war machine
with American tax dollars



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IRAQGATE

How the Bush administration helped Saddam Hussein buy his weapons of war and why American taxpayers got stuck with the bill

spite the failure of the second stage, the third limped into Earth's orbit, but soon fizzled. The Iraqi space-flight vehicle sent intelligence agencies around the globe scrambling, and in less than 24 hours, an American spy satellite located and photographed the desert launch pad. It was a triumph of American intelligence. What nobody knew at the time, however, was that U.S. taxpayers had helped finance the research and devel-

opment of the missile technology inside the big new Iraqi rocket.

In the aftermath of the Persian Gulf war, President Bush and Secretary of State James Baker have been dogged by criticism of the American policy toward Iraq prior to its invasion of Kuwait. Despite Saddam Hussein's gassing of Iraqi Kurds, his destabilization of Lebanon with extensive weapons shipments, his generous support for some of the

Money machine: The Iraqi diversion

Deprived of other sources of loan money, Baghdad borrowed money to purchase U.S. farm goods at artificially inflated prices and used the excess profits to pay for weapons research and procurement. The U.S. Agriculture Department guaranteed the loans to Iraq. When Saddam Hussein's Army invaded Kuwait, Washington was stuck with more than \$2 billion in bad loans. U.S. taxpayers must now repay them.

1 Iraq. Seeks to approach to pay a portion of U.S. Department of Agriculture program guaranteeing repayment of loans for purchase of American farm products.

2 Washington. Between 1983 and 1990, approximately more than \$5 billion in loan guarantees for Iraq commodities purchased under the Agriculture Department program.

3 Intermediaries. Coordinating with the government of Iraq, grain buyers and shippers agree to sell American commodities at prices considerably above market rates.

4 Bankers. Assist the Agriculture Department with priorities and approve funding of projects for the competitive program.

world's most dangerous terrorists and his obsessive quest for weapons of mass destruction, the administration of George Bush defined as its policy "improved relations" with the Iraqi leader.

Central to this policy was a well-funded but little-known program within the Department of Agriculture. Presidents have used it for nearly three decades as a handy source of foreign aid because its disbursements are not directly controlled by the Congress. Initially, the program, administered by the Agriculture Department's Commodity Credit Corp., was intended to expand foreign markets for American farm products by guaranteeing repayment of loans used for their purchase. A *U.S. News* examination of the CCC loan guarantees for Iraq, however, has found that the program was badly abused. Relying on more than 100 recently declassified documents and dozens of interviews with government officials, bankers and arms merchants in the United States and Europe, the inquiry found that tens of millions of dollars—and perhaps much more—was diverted from "profits" generated by the loans.

The diversion scheme was a classic. Iraqi representatives secured loans for commodities purchases at prices far

above prevailing market rates. By paying commodities suppliers less than the amount borrowed, Iraqi representatives were left with millions of dollars in excess profits. At least some of this money was used to finance weapons research and purchases by a variety of Iraqi banks and businesses. Among the recipients:

- Two German engineering firms, which received contracts totaling more than \$1.7 million to modify the drive systems and thus enhance the range of Iraqi Scud missiles of the type used in the launch of the prototype rocket in December 1989. During Operation Desert Storm, one of the modified Scuds landed on a barracks in the Saudi Arabian city of Dhahran, killing 28 Americans, the largest number of U.S. casualties from a single attack in the entire war.

- Gerald Bull, the genius weapons designer who was hired by Iraq to design three "superguns," the largest of them capable of launching a satellite into space. Bull was murdered outside his Brussels apartment in March 1990. According to Sarkis Soghanalian, an Armenian-born arms dealer who introduced Bull to the Iraqi Defense Ministry officials, some of Bull's work on the supergun was financed with profits generated by the CCC loans.

"Bull told me," Soghanalian said, "[the money] came from the grain sales."

- Two weapons companies—one Portuguese, the other Cypriot—which sold South African-built G-5 howitzers and ammunition to Iraq. The transactions were consummated with the assistance of a freight-forwarding company that handled many of the commodities purchases guaranteed by the CCC, according to a congressional report.

- A number of unidentified nuclear-engineering firms. According to an April 1990 memorandum obtained from the Federal Reserve Bank of New York, CCC loan money obtained by an Iraqi intermediary from the Atlanta branch of Italy's state-owned Banca Nazionale del Lavoro was apparently used to purchase nuclear triggers later seized by British Customs inspectors. "[Regarding] the nuclear triggers that were seized in London," Fed official Thomas Baxter wrote to a superior, "as you suspected, there is a connection." Agriculture Department officials were also concerned that Iraq was using CCC-guaranteed loans to pay for research on or procurement of nuclear weapons. An October 1989 "memorandum of conversation" notes that the flow of those loans through BNL "may have led to

DAVID S. WHELAN—CONCEPT

7 Iraq applies the excess profits from the commodities sales to purchases of weapons and for research on new weapons programs. Among them:

Purchase of world-class South African G-5 artillery gun and ammunition.

Modification of the Scud missile to increase its range.

5 Intermediaries pay commodities suppliers prices lower than those reported to the Treasury and the Agriculture Department.



It is impossible to trace, dollar for dollar, how much of the CCC-generated profits was used by Iraqi officials to finance weapons research or purchases. But as early as spring 1989, international bankers and U.S. intelligence officials say, Iraq was experiencing grave difficulty in securing new loans from

Money troubles. For that reason, Iraq's sources of new credit were drying up. Conveniently, by that time the State Department had succeeded in more than doubling the CCC guarantee program from \$393 million in loans in 1986 to more than \$1 billion a year in 1988.

This despite the fact that U.S., European and Israeli intelligence services had already identified much of Iraq's weapons-procurement network. "There was just about no other place for the money to come from," says a U.S. official who reviewed the most sensitive intelligence on Iraq during this period. Patrick Leahy, the Vermont Democrat who chairs the Senate Agriculture Committee, promises an investigation of the CCC-guaranteed loans to Iraq and the diversion of profits to weapons purchases. "It is a complete misuse of U.S. foreign aid or agricultural aid to help prop up a dictator at a time when he is involved in outrageous human-rights abuses against his own people."

The Islamic revolution in Iran fired U.S. interest in improved ties with Baghdad. Until the invasion of Kuwait, Washington saw little reason to review or revise that policy.

1979



NOVEMBER: Adherents of the Ayatollah Khomeini sack the U.S. Embassy in Tehran and hold 53 Americans hostage.

1980
SEPTEMBER: Iraq invades Iran, launching an eight-year war.

1981

JANUARY: Ronald Reagan is sworn in as president. Within an hour, the American hostages are released, after 444 days in captivity.



JUNE: Israel jets bomb Iraq's Osirak nuclear reactor, citing evidence of weapons production there

1992

FEBRUARY: The Reagan administration removes Iraq from State Department list of countries supporting terrorism, the first sign of a U.S. tilt toward Saddam Hussein. Jordan's King Hussein proposes that U.S. arms be sent to Iraq to assist in the war with Iran.

1984

JUNE: Vice President Bush intervenes with former college friend William Draper, chairman of the U.S. Export-Import Bank, to urge loan guarantees for an Iraqi pipeline project. The bank concurs, approving \$484 million.

NOVEMBER: U.S. and Iraq re-establish diplomatic relations after 17 years. Soon after, the Reagan administration begins sharing intelligence with Iraqi military.

1986



King Fahd MA-84 bombs to Iraq. Saudi King, Fahd informs the White House. The Senate is then told of the bomb transfer.

DECEMBER: Despite a steep drop in oil prices, cash-strapped Iraq refuses to accept OPEC quotas, vowing to produce whatever amount of oil serves its national interest.

1003



John Bohn Bohn, the bank's chairman. As a safeguard, the bank requires Iraq to repay the loans in no more than 180 days.

1988

MARCH: Iraq kills an estimated 2,000 Kurds with chemical weapons at the village Halabja.



AUGUST: Iran and Iraq sign a cease-fire. The U.S. continues intelligence sharing with Iraq, but at a reduced pace. Iraq again attacks its Kurds with chemical weapons and continues a campaign of forced relocation, leveling Kurdish villages. Many Kurds flee north into Turkey.



SEPTEMBER: Crying the attacks on the Kurds, Congress considers sanctions against Iraq. Reagan administration opposes sanctions, noting the level of trade with Iraq.

1989

JANUARY: George Bush is inaugurated president.

AUGUST: FBI agents raid the Atlanta branch of Banca Nazionale del Lavoro and discover what is described as massive fraud, including the misappropriation of \$750 million in loans to Iraq guaranteed by the Department of Agriculture's Commodity Credit Corp. BNL also secretly lent Iraq \$2 billion.



OCTOBER: Bush signs National Security Decision Directive-26 ordering expanded U.S. economic ties to Iraq, despite concerns voiced by investigators that Iraq may have bartered commodities bought with U.S. aid for weapons. Iraqi Foreign Minister Tariq Aziz assures Secretary of State James Baker that the growing BNL scandal does not "involve Iraq." He pressures Baker for an increase in U.S. commodity credits for 1990.



James Baker Secretary of State
James Baker that
the growing BNL scandal does not
"involve Iraq." He presses Baker
for an increase in U.S. commodity
credits for 1990.

SPECIAL REPORT

Reagan administration continued favoring Baghdad. In February 1987, Bush lobbied John Bohn, the new chairman of the Export-Import Bank, for more Iraqi aid. By now, however, Iraq was a far greater credit risk. Its debts exceeded \$60 billion, and Ex-Im officials were bound by their charter to make no loans if there was reasonable doubt about the recipient's ability to repay. The political pressure carried the day, however: In May 1987, Ex-Im officials authorized \$200 million in loan guarantees for Baghdad. The bank's staff, who opposed the measure, did win one concession: The \$200 million would be available to Iraq as a revolving line of credit that had to be repaid within 180 days.

An Iraqi "cocoon." In August 1988, Iran and Iraq—exhausted, broke and bloodied—staggered to a cease-fire agreement. In Washington in 1989, the State Department's formidable new troika of Secretary James Baker, Under Secretary for Political Affairs Robert Kimmitt and Deputy Secretary Lawrence Eagleburger notched up the pressure to maintain the CCC loan guarantees for Iraq at more than \$1 billion annually. Though there was opposition within the Treasury and Agriculture departments, as well as in the Office of Management and Budget, State prevailed. The Saudi government, which had demonstrated a consistent ability to



work its will with the Bush administration, urged strongly that Washington continue to cultivate Saddam Hussein. In the fight over the CCC guarantees, the State Department had done just that. The battle won, a triumphant Bob Kimmitt dashed off a note to Jim Baker: "Your call [to Agriculture Secretary Clayton] Yeutter and our subsequent efforts with OMB and Treasury paid off." Trouble came quickly, however. Cit-



ing Saddam Hussein's orders to gas repressive Kurds in the village of Halabja, where an estimated 2,000 people died, members of Congress began pushing for sanctions against Baghdad. Separately, in August 1989, FBI agents raided the Atlanta branch of BNL and unearthed what they described as a "massive fraud" (story below).

In Iraq, BNL had found a client willing to borrow billions, apparently to

BANK JOB

An Italian saga: The case of the missing millions

On a frigid Wednesday evening in the heart of Rome a few weeks back, two professional second-story men slipped into an ornate palacelike building, defeated a complex system of electronic locks and disappeared behind double panes of bulletproof glass. The building, the Largo dei Chiavari, served as the headquarters of a team of investigators assembled by the Italian Senate. Their mission? To unravel the mystery of the state-owned Banca Nazionale del Lavoro and the \$5 billion its Atlanta branch squirreled away and then funneled to Iraq's Saddam Hussein.

The Rome break-in is just another of the more vexing mysteries shrouding the bank that stands at the center of the tangled web of fraud and financial leg-

demain that enabled Saddam Hussein to build one of the world's most fearsome arsenals. More than \$2 billion in BNL loans to Iraq was guaranteed by the U.S. government. Since the conclusion of Operation Desert Storm, U.S. taxpayers have been repaying those loans to the tune of \$1.5 billion a month.

Whispered hints. Though there are many unanswered questions about BNL, the central ones are these: How did such a high-profile bank conceal so much money for so long? Or did it? In Rome, the headquarters of BNL sits squarely across the fashionable Via Veneto from the American Embassy. Bankers and diplomats mix often.

U.S. officials need not have relied on whispered hints over canapés and

cocktails, however. Since 1986, according to senior officials knowledgeable about American intelligence reports on Iraq, the United States scrutinized BNL and banks in Italy, Greece and France to determine whether they were being used unwittingly by terrorists. During this same period, BNL's Atlanta branch began lending heavily to Iraq's Rafidain Bank.

Until August 1989, when FBI agents descended on the BNL branch in Atlanta, BNL loans to Rafidain and other Iraqi-owned businesses grew steadily. U.S. investigators say most of these loans were not recorded in BNL offices in New York or Rome, and bank executives in both cities say they knew nothing of them. An exhaustive report just released by the Italian Senate, however, disputes that. BNL officials in Rome and New York knew a good deal about Iraqi business drummed up by the Atlanta office, the report says. That claim is bolstered by U.S. intelligence reports, which state that the bank's Rome offi-

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Ill-gotten gains. Profits from diversion of U.S.-backed loans to Iraq paid for improved Scud missiles, above left, and nuclear engineering, such as calutrons, far left, and components at the Al-Athar facility. Nizar Humudoon, Iraqi ambassador to the U.S., kept trouble at bay.

buy food. Thanks to the CCC guarantees, the loans were risk-free. By 1989, BNL's Atlanta branch had extended nearly \$750 million for Iraqi commodity buys. It also issued an additional \$3 billion in letters of credit to Iraqi banks and businesses unrelated to the CCC guarantees.

During this same period, beginning from mid-1989 forward, officials of the State and Defense departments and the

National Security Council staff began a major effort to formulate Bush administration policy toward Iraq. Those at State, in particular, sought input from Washington's friends in the gulf, Saudi Arabia and Jordan. "The idea, voiced by nearly everyone," recalls a participant in the review process, "was to embrace Saddam in a cocoon of moderation."

In October 1989, the bureaucrats' labors completed, their report was pre-

sented to President Bush, who promptly signed it. The document is recorded as National Security Decision Directive 26. It concludes that it was in the "national interest" of the United States to seek "improved relations" with the government of Saddam Hussein. Endorsement of the policy came just a month later. The Bush administration pushed through \$1 billion more in CCC loan guarantees for Iraq. To mollify those concerned about Iraq's creditworthiness, it was agreed that the guarantees would be allocated \$500 million at a time. That same month, 14 influential administration figures joined 90 other government and business officials at a Washington forum entitled "Financing Trade and Investment with Iraq."

Dummy companies. Even some who participated in the review process that led to NSDD 26 now concede that it ignored several critical facts. Not least was the gassing of the Kurds. More worrisome was the behavior of Iraq after the cease-fire with Iran. "We understood that they were in deep financial trouble, that they were not making decisions to put their economy on a sound financial footing," recalls a senior U.S. official stationed in Baghdad. "But we also understood that they had tremendous resources. Namely oil. Iraq's reserves are second only to those of Saudi Arabia. In the end, the appeal of potentially rich markets overwhelmed the worries about Iraq's obsessive weapons purchases."

cers knew what the Atlanta branch was up to. Indeed, some BNL executives received fat commissions on the Iraqi loans. Christopher Drogoul, BNL's Atlanta branch director who now faces trial on federal fraud charges, also asserts that his superiors knew what he was doing and approved it. "I was used like a little wheel," Drogoul told an Italian interviewer, "in the mechanism created by the American and Italian governments in order to help Iraq."

That is difficult to prove; what is clear, though, is that Drogoul was not operating entirely in the dark. A senior Italian official familiar with the BNL inquiry recalls that parliamentary officials raised sharp questions about BNL financing for Iraqi weapons as early as June 1988—more than a year before the FBI's Atlanta raid. Even earlier, in February 1988, Italian authorities raided



Baghdad's banker. BNL's Atlanta manager, Christopher Drogoul, being arrested at his home

Paimex, a Rome-based company, and seized 28 tons of cluster-bomb components bound for Baghdad. Paimex, Italian authorities say, was an Italian-Iraqi partnership tied to a network of

Italian companies financed by BNL loans. Days after the FBI raid on BNL in Atlanta, Italian authorities forwarded a detailed intelligence report to Washington on other BNL-financed Iraqi weapons projects. "Where do you think that information came from so quickly?" one senior Italian official asks disgustedly. "Many people knew what BNL was doing with Saddam. But everyone wanted to work with Iraq, so they just looked the other way."

If Drogoul can show that Washington and Rome knew of the Iraqi loans, he will have a strong defense in his trial, now set for June. More difficult will be explaining how \$200,000 in BNL funds made it into Swiss and Luxembourg accounts controlled by his father, Pierre Drogoul. The elder Drogoul is now also under investigation. The fate of either Drogoul, however, will do nothing to restore the millions already lost.

BY BRIAN DUFFY IN ROME
AND STEPHEN J. HEDGES IN ATLANTA

SPECIAL REPORT

In retrospect, senior officials now concede, this was perhaps the critical error. Various intelligence services had documented the efforts of Iraqi agents, who seemed to be scouring the European countryside buying weapons, running dummy companies and paying for exotic engineering studies. Since the end of the Gulf war, U.S. intelligence agencies have identified 44 individuals and 48 companies engaged in Iraqi weapons procurement worldwide. Senior U.S. officials say that many had been identified as early as 1989. Declassified summaries of German intelligence reports support that contention. A senior U.S. intelligence official says that Saddam Hussein worked nonstop buying weapons. "The expectation was that at the end of the war [with Iran] he would be exhausted. And yet there was no letup at all in our reporting on his procurement efforts in Europe and elsewhere."

Mixed messages. Despite that, the policy remained unchanged. And even well into 1990, after Saddam Hussein began boasting of his chemical weapons and threatening to strike Israel with them, Iraq received no high-level attention until a group of senior administration officials convened on April 16, 1990. Known as the "deputies committee," this group listed options available to the president if he wanted to send a harsh message to Hussein. Only one of these options—suspending the second \$500 million in CCC loan guarantees—was ultimately approved, but not before six more weeks had elapsed. At the same time, incredibly, the administration continued to provide limited military intelligence to Baghdad. A senior CIA official says now that the agency should have produced a new "estimate," a lengthy and detailed review of Iraqi behavior, in June 1990. "Had we done so," the official says, "I am confident we would have concluded that Iraq would have attacked Israel. As for Kuwait, nothing we were seeing pointed to that scenario."

There were those who did see such signs. In Washington, Ex-Im Bank reports predicted as early as April 1989 that Iraq might soon be at war with "Syria... or even Saudi Arabia or Kuwait over simmering territorial claims."

Concerns such as these, however, were steamrollered in the State Department's determined push for "improved relations" with Baghdad.

THE DIVERSION

To this date, no one outside Baghdad understands just how many ways Iraqi middlemen flimflammed the United States through the CCC program. "There is no doubt that they used the guarantees to mobilize more money," says a senior Israeli intelligence official knowledgeable about Iraq's European weapons-procurement network. "They

of farm goods. U.S. officials say there is no evidence to confirm that contention.

The basic element of the diversion scheme, however, is clear. By securing loans for purchases of commodities at inflated prices, Iraqi middlemen guaranteed excess profits on many sales. A May 1990 Department of Agriculture review of Iraqi shipments found that one firm in particular, Entrade International Ltd., charged up to \$37.50 above the prevailing price per metric ton for sugar, and \$20 above the metric ton market price for rice and corn. The potential for profit was enormous. Iraq was importing roughly 187,000 metric tons of food supplies a month—much of that from the United States. Another Agriculture Department review analyzed 64 commodity sales to various countries and found that 53 were guaranteed at prices well above market rates. Those sales resulted in excess profits of \$78.6 million. CCC-guaranteed sales of farm goods to Iraq numbered in the hundreds, making the potential for profit many times larger.

The Iraqis were nothing if not brazen. In 1987, Iraqi representatives complained about the high costs of shipping food supplies all the way to Baghdad. Loans guaranteed by the CCC were not intended to cover the cost of freight, but the Agriculture Department made an exception in the case of Iraq. U.S. taxpayers, in other words, soon began underwriting the cost of the food for Baghdad, as well as the ships and trucks to get it there. This was done despite the Agriculture Department's own reviews documenting Iraqi middlemen's demands for blatant kickbacks from shippers of CCC-guaranteed commodities. With many deliveries, Agriculture Department inspectors found, shippers were required to fill Iraqi shopping lists that covered everything from trucks and copiers to telephones and calculators. Many exporters referred to these blandly as "after-sales services." The Agriculture Department—again, according to its own review—found that it had guaranteed the cost of the Iraqi kickbacks, on top of the cost of the farm goods and the charges for shipping them. The few shippers who complained about the Iraqi kickback scheme soon found themselves shut out of the CCC pro-



Middlemen. Sarkis Soghalian, left, sold arms to Iraq and knew of the diversion of U.S.-backed loans. Wafai Dajani did the most CCC business with Baghdad.

did it a lot of ways. You have to see this as a sort of symphony, not as a single instrument." Auditors from the Agriculture Department and the General Accounting Office speculate that some farm goods purchased by Iraq with CCC-guaranteed loans were swapped, for instance, for arms from the Soviet Union. U.S. and European officials say that there are credible intelligence reports of grain being offloaded from Iraqi vessels in Black Sea ports in 1987 and later.

The key to the Iraqi network, at any rate, was the CCC guarantees. Arms dealer Soghalian says that he was approached in 1987 to assemble a shipment of various weapons for Iraq. The deal, he was told, would be financed with proceeds from loans guaranteed by the CCC. Soghalian says he declined to go forward with the proposed transaction. He also says that because the BNL loans guaranteed by the CCC were never properly recorded, Iraqi intermediaries were sometimes able to obtain duplicate loans for the same shipment

SPECIAL REPORT

gram. "If you wanted the business, you had to provide after-sales services," says Wafai Dajani, a Jordanian shipping merchant. "Otherwise, you would get no business."

Dajani's firm, Amman Resources, had little trouble getting Iraqi business. Allied with Gearbulk, a big Norwegian shipping concern, and Louis Dreyfus, a French grain company, Dajani all but cornered the market on commodities going to Iraq through the Jordanian port of Aqaba. BNL's Atlanta branch provided the bulk of the financing for those shipments. When BNL fired its Atlanta branch manager, Christopher Drogoul, Dajani hired him as a \$50,000-a-year consultant. "I hired him," Dajani says, "because he didn't do anything wrong."

Guns and money. Now it is Dajani who is under suspicion of wrongdoing. According to knowledgeable officials, federal prosecutors, responding to concerns expressed by the State Department, delayed nearly 18 months before naming Dajani as an indicted coconspirator in the pending criminal case against BNL. U.S. intelligence files on Dajani are substantial. Several reports link him directly to the transfer of arms and dangerous technology to Iraq. House Banking Committee Chairman Henry Gonzalez, who has led the congressional investigation into BNL and its relations with Iraq, also claims to have evidence that Dajani joined with two firms, Armibrica Defense & Security of Lisbon and A & L Management Services in Cyprus, in the transfer of howitzers, ammunition and small arms to Iraq. Dajani, who lives in an elegant London townhouse a few blocks from Kensington Palace, calls those allegations preposterous. He says he is being confused with another Dajani. "I couldn't be involved in arms," he says. "I am too big and easy to watch."

THE "COVERUP"

Sifting the truth from the Bush administration's welter of conflicting statements about its policy toward Iraq is not easy. Representative Gonzalez, Senator Leahy and others complain that the administration has done little to assuage their concerns about the di-

versions of CCC-guaranteed loans, the role of BNL and the involvement of U.S. companies in arming Iraq. If anything, administration officials have circled the wagons. In April 1991, the White House established a vetting process directed by the National Security Council's chief lawyer, C. Nicholas Rostow. Under his direction, administration lawyers refused to provide Congress with some documents. In their place, Rostow offered oral briefings on the contents of the documents. Executive-branch departments were advised by the White House that "alternatives

tion "unjustified and misleading." The Justice Department is investigating.

Was the U.S. policy toward Iraq justified in its inception? Certainly. But late in the Iran-Iraq conflict and especially after the war ended and Iraq began shopping for weapons around the globe, America did not recalibrate the policy. It may be that fear of Iran clouded the judgment of senior Bush administration officials. Certainly the Saudis and others among America's friends in the Arab world reinforced Washington's desire for "improved relations" with Saddam Hussein. This

jibed, too, with the Bush administration's desire to expand overseas markets for American farm goods.

Wishful thinking. On these uncertain pillars did the Bush administration's policy toward Iraq rest. Was there an alternative? Senior administration officials say the policy toward Iraq was tough but fair. The State Department criticized Saddam Hussein's record on human rights as "abysmal." But there were few criticisms of that sort, and they were evidently drowned out by the steady flow of positive signals emanating from Washington.

It was almost as if the administration viewed its policy of seeking improved relations with Baghdad as a self-

fulfilling prophecy. In a memo prepared in February 1990, John Kelly, the assistant secretary of state for Near Eastern and South Asian affairs, argued that \$500 million in CCC credits to Iraq should be released. (Iraq had used up \$500 million in CCC guarantees in January 1990 alone.) There was evidence by this time, however, that some CCC loan proceeds had been used to buy weapons. The Bush administration was nevertheless determined. Failing to approve the CCC guarantees, Kelly wrote, "will feed Saddam's paranoia and accelerate his swing against us." It seems as if it was the Bush administration that was paranoid, however: Worry over Saddam Hussein's wrath had paralyzed the president and his men. The Iraqi leader had shrewdly converted those worries to his own advantage. Today, as a result, the United States is stuck with more than \$2 billion in bad Iraqi loans. Because the CCC guaranteed them, American taxpayers will now have to repay them.

By STEPHEN J. HEDGES AND BRIAN DUFFY



At loggerheads. Rep. Henry Gonzalez seeks to expose what he calls the "coverup" of the U.S. policy toward Iraq devised by George Bush and James Baker.



to providing documents should be explored." Gonzalez, who has issued more than 100 subpoenas for documents, says the "Rostow Gang" has a single purpose: to "cover up embarrassing and potentially illegal activities of persons and agencies responsible for the United States-Iraq relationship." A White House spokesman says that Rostow's office has merely coordinated the document-sharing effort and that it has played no part in limiting what government agencies share with Congress.

That may be, but the administration has been anything but forthcoming when questioned about its Iraqi policy. The Commerce Department, for example, was responsible for licensing goods bound for Iraq. But when questions were raised about \$1 billion worth of heavy trucks bound for Iraq, the military designation Commerce had originally assigned to the shipment was deleted from a list of U.S. exports to Iraq that was prepared for Congress. The Commerce Department's inspector general subsequently found the dele-

U.S. Officials Defend Prewar Support for Iraq

By George Lardner Jr.
Washington Post Staff Writer

Angrily pounding the witness table at times, Deputy Secretary of State Lawrence S. Eagleburger yesterday defended the Bush administration's prewar support of Iraq as a "modest" and "prudent" approach that has been distorted by selective disclosures of classified documents.

"It is clear that policy did not work," Eagleburger said of the government's attempts to cultivate Iraqi President Saddam Hussein prior to Iraq's 1990 invasion of Kuwait. "We tried. Because we tried does not mean that we created a

Frankenstein monster. He was his own monster. We tried to contain him. We did not succeed."

Eagleburger and three other senior U.S. officials appeared before the House Banking Committee to present the administration's first detailed public response to a growing storm of Democratic charges that U.S. dealings with Baghdad before the war were not only misguided but possibly illegal. The officials denied the charges and said their attempt to develop what Eagleburger called "a modest economic relationship" with Iraq was a sensible approach now being unfairly dissected with the benefit of hindsight.

"Quite frankly, the selective disclosure—out of context—of classified documents has led—knowingly or otherwise—to distortions of the record, half truths and outright falsehoods, all combined into spurious conspiracy theories and charges of a 'coverup,'" Eagleburger protested.

The main focus of the hearing was the administration's persistence in maintaining the Commodity Credit Corp. (CCC) program with Baghdad, which was the cornerstone of U.S.-Iraq relations.

U.S. officials decided in the fall of 1989 to grant Iraq an additional \$1 billion new CCC credit.

See IRAQ, A30, Col. 1

IRAQ, From A1

its to finance exports of food and farm products, despite a bank scandal that had emerged in Atlanta indicating the program had been riddled with fraud. There were even reports then that CCC-guaranteed funds or food shipments might have been diverted by Baghdad to third parties in exchange for military hardware and nuclear-related equipment. But it took six months and sharply deteriorating relations with Baghdad before the program was canceled.

Throughout the day yesterday, the administration witnesses said that there was no specific evidence that such diversions had taken place, but it became clear by day's end that Agriculture Department investigators never thoroughly pursued the matter.

Under questioning by Rep. Bruce F. Vento (D-Minn.), Undersecretary of Agriculture for International Affairs Richard T. Crowder acknowledged that a special review team sent to Baghdad in April 1990 traced U.S. food shipments only to ports of entry outside Iraq and that the only evidence the shipments had indeed been delivered by truck to Baghdad consisted of thousands of individual truck manifests and customs records, all in Arabic or Turkish.

A May 1990 Agriculture Department report of that investigation said the team, unable to "audit this huge number of documents," obtained samples from Baghdad that would be "translated and reviewed." At the same time, the report concluded there was "no evidence to suggest that there has been diversion of commodities sold to Iraq."

Crowder said yesterday that the Arabic sample documents still have not been translated. He said the purpose of the special review was "to determine evidence of program wrongdoing" on the part of Iraq, and the team found enough of that in the form of inflated commodity sale prices, sham taxes and kickbacks in the form of "after-sale services" demanded of exporters.

"But you've made a conclusion that there was no diversion," Vento complained. He pointed out that additional, computerized records kept in Amman, Jordan, by the main company handling the food shipments were offered to the Agriculture Department investigators, but they never bothered to get them.

"It seems to me this is a rather large loophole," Vento said.

Committee Chairman Henry B. Gonzalez (D-Tex.) opened yesterday's hearing with a warning that the committee may resort to subpoenas if necessary to call White House witnesses and obtain more documents.

The Justice Department notified Gonzalez last week his committee will not be provided with any more classified records if he persists in publishing selections in the Congressional Record. The White House yesterday declined to permit appearances by two witnesses requested by the committee—presidential assistant Richard Haass and former presidential assistant Stephen Danzansky.

The first administration witness, Deputy Treasury Secretary John E. Robson, outlined the interagency meetings in the fall of 1989 that led in November to approval of another \$1 billion in CCC credits for Iraq, which was to be paid in two equal installments. The second \$500 million, Robson said, was "contingent on satisfactory resolution" of the investigations involving the Atlanta branch of the Banco Nazionale del

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THE WASHINGTON POST

U.S. Support of Iraq Called 'Prudent'

Lavro (BNL), Iraq's main source of credit in the United States.

As a result, the second \$500 million was never approved. But between 1983 and 1990, Iraq received a total of \$5 billion in credits and defaulted on \$2 billion after its invasion of Kuwait.

Robson said "concerns were raised" about the BNL affair when the question of new credits for Baghdad was debated in 1989, but there was at that time "no firm evidence of Iraqi official involvement or complicity in importations in connection with the CCC program."

Eagleburger said the bank was specifically excluded from the new CCC program for Iraq. He dismissed as mere "speculation" an Oct. 13, 1989, State Department memo that had warned of possible kickbacks and diversion of CCC-guaranteed commodities.

Testifying in tense and occasionally indignant tones, Eagleburger described U.S. policy toward Baghdad as "a subtle leaning" toward Iraq during the Iraq-Iran war, which lasted from 1980 to 1988. After the war, Eagleburger said, the United States pursued a "slow and steady" course trying to improve its relationship with Iraq.

Eagleburger concluded by taking sharp exception to Gonzalez's accusations in recent months that Eagleburger had "past ties to BNL" because the bank was a client of the consulting firm of Kissinger Associates. Eagleburger was president of the firm before joining the State Department in 1989. Eagleburger said he did not recall doing any substantive work for BNL and had played no role in the administration's handling of the BNL scandal.



Eagleburger sits at witness table with Robson, left, and Edward W. Kelley Jr. of the Federal Reserve Board behind him.

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 How George Bush helped create Saddam Hussein.

THE ODD COUPLE

By Mark Hosenball

Six days after Saddam Hussein's troops crossed the border into Kuwait, George Bush boldly compared Iraqi actions to Hitler's "blitzkrieg" against Germany's neighbors. This was a startling turnabout. Until then, despite repeated intelligence warnings and overt threats by Saddam against his neighbors, the president had been energetically pursuing a long-standing U.S. policy of appeasement toward Iraq. From 1983 until only days before diplomatic relations ruptured, the United States was one of Saddam's principal financial backers. The massive financial aid, comprising billions of dollars' worth of loan guarantees, continued long after it became apparent that Saddam was building an ambitious, menacing military machine.

In hindsight, the extent to which the Bush and Reagan administrations collaborated in Saddam's ruinous military delusion is appalling. The State Department and the National Security Council encouraged American companies to sell "dual-use" technology to Saddam that helped advance his quest for intercontinental missiles. Secret government documents hint that high-ranking officials turned a blind eye or gave tacit encouragement when Saudi Arabia, Egypt, and, in all likelihood, Jordan schemed to arm Iraq using American hardware. To help Saddam make effective use of his modern weapons, the Reagan and Bush administrations fed him U.S. intelligence secrets. With Bush's help, Washington even offered him advice on military strategy.

Moreover, top government officials ignored or buried evidence that Saddam's intentions toward his neighbors and the United States were malign and that his nuclear ambitions were well advanced. Officials who challenged the hand Washington was extending to Iraq were pressured to toe the line and penalized

when they didn't. Repeatedly some of the most senior officials, including Bush and Secretary of State James Baker, intervened when more cautious voices objected. And when this policy finally imploded, some of the officials most deeply implicated attempted to cover up their more egregious follies. They have stonewalled, dissembled, and even altered official documents recording U.S. dealings with Saddam.

Until recently their efforts to keep the press and Congress at bay had largely succeeded. On the Hill the only serious inquisitor into administration dealings with Iraq has been Texas Democrat Henry B. Gonzalez, the venerable but idiosyncratic chairman of the House Banking Committee. Despite objections and threats from administration officials to cut off his access to official papers, over the last three months Gonzalez has made public dozens of classified documents that

disclose the policy's proponents and provide at least an outline of its evolution. Congressional officials say there has been no comparable

release of government secrets by a member of Congress since Senator Mike Gravel read the Pentagon Papers into the record. But so far the national media—with the notable exception of Murray Waas and Douglas Frantz of the *Los Angeles Times*—have not bothered to report much on Gonzalez's revelations, perhaps put off by his eccentricity and prolixity. The current cover story in *U.S. News & World Report*, "Iraqgate," may signal a new wave of media attention.

This general lack of interest is all the more surprising given the import of the material. Juxtaposed with still-secret records obtained from other sources and obscure statements and documents released by the administration itself, Gonzalez's revelations could be more devastating to the Reagan and Bush administrations than the Iran-contra affair. The failed Iran-contra policy, which involved relatively modest numbers of

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MARK HOSENBALL is a producer for "Dateline NBC."

weapons and even smaller amounts of cash, had little ultimate effect on the matters it was intended to influence in Iran, Lebanon, and Nicaragua. By contrast, though there may have been less outright criminality and dirty trickery in U.S. dealings with Saddam, ultimately the secret policy of building up Iraq economically and militarily had a far more disastrous result: the Reagan and Bush administrations helped arm Iraq for a war it fought against the United States.

As originally conceived, the Bush and Reagan policy toward Iraq had some logic. The fall of the Shah left Washington without a proxy in the oil-rich Persian Gulf. The 1980 hostage crisis showed that the Ayatollahs were intent not only on destabilizing the region but on humiliating the "Great Satan" as well. Compared with Khomeini, Saddam, despite his reputation as a power-crazed cutthroat, seemed like the kind of pragmatic dictator a U.S. president could do business with; all Washington initially needed to do was to engineer a moderate tilt toward Baghdad in the interminable Iran-Iraq war. But both Washington and Saddam got carried away. The administrations continued their vast subsidies to Saddam long after the Iran-Iraq conflict faded. Saddam, in turn, may well have concluded that continued American generosity meant he could discreetly proceed with his more grandiose military plans.

From the outset, the U.S. tilt toward Iraq involved some tortuous policy gymnastics. When Ronald Reagan came to office in 1981, U.S. government agencies were blocked from giving financial aid to Iraq because Saddam's regime was on an official list of countries that supported terrorists. But in 1982, with little explanation, the administration removed Iraq from the terrorist list. In confidential cables, American diplomats in Baghdad urged the State Department to improve relations by offering U.S. government financial backing through the Agriculture Department and the Export-Import Bank. In a December 1983 confidential briefing paper, Richard Murphy, the State Department's Middle East expert, said such aid "would go far to show our support for Iraq in a practical, neutral context." The official Reagan administration policy was that the United States was neutral in the Iran-Iraq war.

Within days of Murphy's briefing paper, in a letter classified "secret" and dated Christmas Eve 1983, Under Secretary of State Lawrence Eagleburger was urging Ex-Im Bank chairman William Draper III to open a line of credit for Iraq: "Recently," he wrote, "the President of Iraq announced the termination of all assistance to the principal terrorist group of concern [probably the infamous Abu Nidal organization,

which enjoyed an off-and-on friendship with Iraq over the years], among others. Iraq then expelled its leader. The terrorism issue, therefore, should no longer be an impediment to Ex-Im financing for U.S. sales to Iraq." Eagleburger added that "from the political standpoint, Ex-Im financing ... could provide some incentive for Iraq to comply with our urgings that it show restraint in the war."

The Export-Import Bank was not thrilled by the suggestion. Its credit analysts had concluded that Iraq's economy was in dire straits, and the likelihood that Iraq would repay its debts on time was remote. But pressure from top officials continued and later intensified after the State Department signed on to a grand strategy that it believed could both right Iraq's economy and solve one of America's gravest concerns about Iran. The plan was to build a pipeline for Iraqi crude oil across the Arabian desert to the Jordanian Port of Aqaba. The pipeline, financed with loan guarantees from the Ex-Im Bank, would be built by the American contractor Bechtel (whose former president, George Shultz, happened to be secretary of state). During a February 1984 swing through Baghdad, Murphy reported to Washington in a secret cable that he had discussed the pipeline project with Iraqi

Foreign Minister Tariq Aziz and told him that Washington "certainly recognized that this was a project of strategic importance. Beyond providing

sources of revenue for Iraq and Jordan, it was of global importance by reducing collective reliance on the Strait of Hormuz."

The Export-Import Bank continued to balk, but in June 1984 Draper received a call from a former Yale classmate, George Bush. According to confidential "talking points" prepared by the State Department for Bush before he made the call, the vice president was supposed to point out that Iran "was the intransigent party" in the Iran-Iraq war, and, "We must therefore seek means to bolster Iraq's ability and resolve to withstand Iranian attacks." Following this appeal—which Draper told the *L.A. Times* he now does not remember—the bank finally approved a \$484 million loan guarantee for the project.

In this matter and in most others, the officials whose comments and advice on U.S. relations with Iraq now look remarkably prescient are the lower-level bureaucrats whom politicians and top policy-makers usually disdain as unimaginative time-servers. From the moment Washington's tilt toward Baghdad began, analysts at the Export-Import Bank resisted administration pressure because, in the words of one dismissive State Department memorandum, the bank did not believe there was a "reasonable assurance of repayment." Time



and again bureaucrats warned policy-makers that based upon the evidence of his record, Saddam's practice was only to pay off his big international creditors after they had agreed to advance him new—and larger—lines of credit.

In a curious circumlocution, according to his confidential script, Bush also was supposed to tell Draper that the Iraqi pipeline could "contribute to stability in the region by promoting at least tacit cooperation in the region." Other evidence suggests that this was a reference to the Reagan administration's efforts to enlist Israel's support for the plan. The biggest problem was geographical: the pipeline would have to run for at least some distance along Jordan's border with Israel. But that would make it an easy and early target for Israel in the event of a new Arab-Israeli war. The administration's answer, according to a secret cable sent by Shultz in March 1984 to special envoy Donald Rumsfeld, who was touring the Middle East, was for Washington to make known "to the Israelis our interest in the completion of the line." The Israelis, in turn, "raised no objections." But according to the cable, they apparently did not give a "guarantee of ... non-interference" the Iraqis had hoped for. Lacking such a guarantee, the Iraqis were reluctant to go forward.

This led to a more intense round of wheeling and dealing. Secret documents show that the project, and Bechtel's role in it, had support at the highest levels of the U.S. government. But the project still seemed to be going nowhere. Not wanting the deal to fall apart, but apparently fearing that the Iraqis would be put off if the company was seen dealing directly with Israel, Bechtel felt it had to try another approach. So in 1985 the company hired a Swiss-based businessman named Bruce Rappaport who had high-level Israeli friends, including Labor leader Shimon Peres. He was to use these contacts to win an explicit Israeli sanction for the pipeline. Rappaport retained as his American adviser E. Bob Wallach, a close personal friend of Ed Meese, then adviser to the Reagan White House. Meese arranged for Wallach to discuss the pipeline with White House national security adviser Robert McFarlane. And Wallach then tried to parlay this introduction into leverage with a government agency called the Overseas Private Investment Corporation, which he hoped would write a half-billion-dollar, taxpayer-backed insurance policy indemnifying the pipeline's operators against an Israeli attack. In an "eyes only" memo to Meese that later surfaced in the press, Wallach suggested that Israel's cooperation could be cemented by an agreement to offer Israel royalties on oil that was shipped through the pipeline; as added security, some of the royalties could even be funneled to Peres's political treasury. Despite Wallach's imaginative proposals for encouraging Israeli cooperation—or possibly because of them—the pipeline project eventually foundered.

Meanwhile, in July 1984, following pressure by Vice President Bush and others, the Export-Import Bank

offered Saddam a \$200 million short-term credit line. The credit was cut off a few months later when Iraq slipped behind in its payments, and despite heavy pressure from the State Department to loosen up, the Ex-Im Bank continued to refuse new Iraqi credits. Then, in 1987, two events seemed to change its mind. First, Iraq paid off its overdue Ex-Im bills. Second, Bush made a second phone call to Ex-Im on Saddam's behalf. According to Bush's classified script for the phone call, which again was drawn up by the State Department, Bush told the new Ex-Im chairman, John Bohn, that he was about to meet Washington's Iraqi ambassador and wanted to "be as responsive as possible." There was now little pretense of neutrality in the Iran-Iraq war. "As you know," says Bush's script, "there are major U.S. policy considerations at work in this issue. Iraq has apparently contained the latest Iranian offensive, and we are taking advantage of that to try to put some life into peace efforts.... Now is the time to begin building a solid trade relationship with Iraq for the future." Ex-Im Bank officials reopened a \$200 million credit line. Later, when Bush actually met the Iraqi ambassador, he appears to have had additional good news. According to a confidential briefing paper prepared for the vice president before his meeting with the Iraqi, the Defense Department had been blocking export licenses for two high-technology shipments that the Iraqis were desperate to obtain. Bush was advised by the State Department that "from the Iraqi perspective, the long delays appear to be capricious. We agree with that assessment."

According to a little-noticed speech on Iraq policy given on the House floor in February 1992 by Gonzalez, the Iraqis used the Ex-Im guarantees, among other things, to buy armored ambulances, portable communications gear, and pesticides. (In one amazing internal Ex-Im Bank memo, an analyst pointed out that some of the pesticides that Ex-Im credit was helping Iraq to buy had the same deadly effects as nerve gas. But since the pesticides were not on an official U.S. list of nerve gas components, the analyst concluded, Ex-Im could not refuse to finance the transaction.) From its point of view Ex-Im Bank did not suffer too badly when its credit line was finally revoked after Saddam invaded Kuwait: the Iraqis had kept relatively current with their repayments, and the bank faced only \$50 million worth of claims on unpaid loans it had guaranteed.

Financing through the Ex-Im Bank was only a small part of Washington's support for Saddam. Much heavier financial support was funneled to Iraq—at the ultimate expense of the U.S. taxpayer—through export credit guarantee programs operated by the Agriculture Department's Commodity Credit Corporation (CCC). A chronology drawn up by a House Agriculture subcommittee headed by North Carolina Democrat Charlie Rose (based on claims filed by banks with the Agriculture Department after Iraq stopped repaying its loans in the wake of the invasion of

Kuwait) shows at least \$3.37 billion worth of agriculture export loan guarantees were granted to Iraq between 1987 and early 1990 alone. At State Department urging, Agriculture's credit facilities for Iraq had opened in 1983 with sales of \$365 million worth of government-guaranteed agricultural products. By 1988 Agriculture commodity export guarantees to Iraq were totaling more than \$1 billion annually.

One bank that received a large share of the Agriculture export guarantees for Iraq was the Atlanta branch of the largest state-controlled bank in Italy, the Banca Nazionale del Lavoro (BNL), which has become the focus of almost as much international scandal and intrigue as the notorious bank of crooks and criminals, BCCI. By Gonzalez's estimate, the Atlanta bank branch of BNL received \$900 million in Agriculture Department loan guarantees—which later turned out to be only a quarter of the Atlanta bank's total loans to Iraq. On August 4, 1989, a team of agents from the FBI and the Federal Reserve Board, acting on a tip that Saddam might have diverted some American-backed loans for sinister purposes, raided the Atlanta bank branch and seized its records. Within weeks frantic memoranda were circulating in government agencies that had been aware of the bank's role in U.S. credit programs to Iraq, expressing concern about Saddam's misuse of the money. In the words of one internal Agriculture Department memorandum, "It appears more and more likely that [Agriculture Department] funds ... may have been diverted from Iraq to third parties in exchange for military hardware.... Noted in particular ... were a 'nuclear fuel compounding' and a nose cone burr." Congressional investigators are now putting together hard evidence to support their long-standing indications about the diversion scheme. There are strong indications that U.S.-backed loans played a significant role in helping Saddam build up his nuclear and missile development programs.

One major recipient of loan money from BNL was a British machine tool company called Matrix-Churchill. This company was actually controlled by agents of Iraq's Ministry of Industry and Military Industrialization, which was in charge of Saddam's worldwide military purchasing network. Matrix Churchill's office in Cleveland, Ohio, was shut down and raided by Treasury agents shortly after Iraq invaded Kuwait, and documents seized showed the company had been buying equipment from a wide assortment of American high-technology manufacturers, who signed papers agreeing to kick back 5 percent to 10 percent of the value of their contracts to Matrix and its principals back in Baghdad.

The raid on the Atlanta branch of BNL caused considerable worry among bureaucrats in Washington, who were just deciding to go ahead with massive additional aid programs for Iraq for fiscal year 1990. Serious muscle was applied at the highest level to get past concerns over the Iraqi aid. First, in a document that the administration has refused to declassify, known as

National Security Decision Directive 26, President Bush himself ordered that efforts to improve relations with Iraq were to continue as part of U.S. strategy to protect its interests in the Persian Gulf, according to the *Los Angeles Times*. When investigators for Representative John Dingell, chairman of the Energy and Commerce Committee, asked the White House to see the directive in connection with their own investigation of bungled intelligence warnings about Iraq's nuclear research (see "Blind Eye," *TNR*, November 25, 1991), national security adviser Brent Scowcroft wrote a haughty letter to Dingell to say that only members of Congress and staff directors would be allowed to see it. (Later the White House did allow other Dingell staffers to see the document.)

Following the presidential directive, Baker bent over backward to reassure the Iraqis of continued American support. When Iraqi Foreign Minister Aziz paid a friendly visit to Washington a few days later, Baker eagerly accepted assurances from Aziz that the Iraqi government was not involved in the BNL affair. According to the official notes of the meeting, which were memorialized in a secret cable sent to the U.S. Embassy in Baghdad: "The secretary asked if GOI [Government of Iraq] is cooperating with the Fed investigation.... Aziz said that Iraqi central bank governor and the minister of finance had been in Washington, met with U.S. officials, and were told the GOI was not involved.... He stressed Iraqi pride in rooting out corruption and said GOI would surely act on any information available to it."

Apparently that was all the reassurance that Baker needed. The Agriculture Department, reacting to the Atlanta bank raid, had tentatively decided to cancel a billion-dollar loan guarantee package planned for Iraq in fiscal year 1990 and to propose instead only an "interim" package for \$400 million. The State Department, however, wanted Agriculture to agree to the original billion, and Baker called Clayton Yeutter, then secretary of agriculture. According to the classified script prepared for Baker by his staff, he was to tell Yeutter that the full loan program should be supported on "foreign policy grounds." "The Iraqi foreign minister," Baker's talking point said, "with whom I talked, has now pledged Iraq's cooperation.... With safeguards, I hope we can get this important program on track quickly." A handwritten note at the bottom of the memo, signed with the initials J.A.B. III, says, "Done. C.Y.: I think we're seeing it the same way your guys are. I'll get right into it." Deputy Secretary Eagleburger subsequently phoned his counterpart at the Treasury Department to soothe concerns there. Agriculture went forward with the full billion dollars in loan guarantees, though it did build in the minor "safeguard" of providing the credit in two half-billion-dollar installments.

Within months Iraq had used up the first \$500 million in credits, and the State Department and White House again pressured the Agriculture Department to pony up the other half. But as press interest in the

police raid on BNL intensified, the Agriculture Department was becoming more nervous. Then, in late March 1990, British authorities broke up an Iraqi military acquisition network that had been trying to buy nuclear trigger parts from a company in California. And shortly afterward Saddam made his notorious threat to "burn half of Israel" to the ground. A secret "options paper" on Iraq prepared by the State Department for circulation to NSC members listed both the pros and the cons of not going ahead with more agricultural credits for Baghdad. A suspension of credits would send a strong statement to Baghdad, the paper noted. But the con argument seemed couched in stronger terms: not going ahead with more credit "would violate our policy against using food as a political weapon and hit some U.S. agricultural supporters hard. It might also lead Iraq to default on CCC-insured loans." In the event, the Agriculture Department did not formally cut off credit to Iraq until Saddam invaded Kuwait a few weeks later.

Meanwhile, early on, the federal prosecutors responsible for dealing with the BNL case decided they had some kind of major scandal on their hands, since documents seized in the raid showed that its employees had been keeping multiple sets of books. According to *New York Times* reporter Dean Baquet, some prosecutors felt indictments should be brought as early as October 1989. But that happened to be the same time Baker was graciously accepting Iraqi assertions of non-involvement in the bank's documents, and the indictments never were brought. According to one document, in January 1990 the prosecutor in charge of the BNL investigation wrote the Fed that an indictment was "anticipated ... early next month." But that deadline too came and went. No indictments were brought in the bank scandal for more than a year, until just after Bush had declared a cease-fire in Operation Desert Storm.

At the very least, export credits from the U.S. Agriculture Department helped Saddam free up currency reserves for such acquisitions as American computer technology for his missile control rooms and German centrifuges for his uranium enrichment plants. He could use the Export-Import Bank loan guarantees more directly for his military buildup, though he had to buy only "non-lethal" items like armored ambulances. And by 1984 what had started as a modest U.S. tilt toward Iraq had become a dizzying list. In a secret cable to Middle East envoy Rumsfeld from the State Department's Murphy, Secretary of State Shultz had decided to impose new export controls on Iran, but at the same time was considering "revising present policy to permit virtually all sales of non munitions-list dual-use equipment to Iraq."

In the same cable Murphy informed Rumsfeld of an ingenious idea proposed by the Egyptians: "In the context of improving our relations with Iraq, Egypt has suggested that we provide it additional M-48 tanks beyond those we are now providing.... Egypt would

use the additional M-48s to replace used Soviet T-69s, which it would sell to Iraq." Murphy did not reject the idea out of hand, though one knowledgeable source says that this particular deal never went through. Two years later, according to another memo disclosed by the *L.A. Times*, the Saudis diverted American-made 2,000-pound bombs to Iraq. The State Department now has insisted privately to Congress that those shipments were "inadvertent."

However, other American support for the Iraqi military was hardly inadvertent. For years the CIA had been supplying Iraq with American intelligence secrets on Iranian military intelligence, a fact confirmed during Senate investigations of Robert Gates for his appointment as CIA director. According to a chronology drawn up by Gonzalez, this policy was ratified by President Reagan in a secret national security directive signed in 1984, about the same time the Egyptians were proposing their tank-swapping plan. The intelligence-sharing authority was expanded twice in 1986 and included giving Iraq information about the success or failure of its military operations.

Few if any secret documents directly from CIA or defense intelligence records of the intelligence exchange have yet been made public, though hints of how high-level American officials hoped intelligence information could be used are offered in a secret July 1986 cable that the State Department's Murphy sent to the American ambassador in Baghdad. "We have encouraged the Vice President to suggest to both King Hussein and President Mubarak that they sustain their efforts to convey our shared views to Saddam regarding Iraq's use of its air resources. The very recent report ... from Amman on the subject leads us to conclude that Saddam may not be open to suggestion. On the other hand, if Saddam does what he says he would do with the Air Force that would be a major plus." A source with firsthand knowledge said that the cable was drafted at a time when Bush was preparing to tour the Middle East and would meet with Hussein and Mubarak. At the time, Saddam was under severe pressure from Iranian ground assaults, and Bush, at the urging of the State Department and America's Arab allies, wanted to encourage Saddam to use his air force more effectively.

U.S. intelligence-sharing with Baghdad lost much of its justification when the Iran-Iraq war ended, and the Reagan administration gave the impression that in 1988 it actually stopped. However, a secret NSC options paper circulated in May 1990 reported that while "intelligence exchanges have waned since the Gulf war, cease-fire ... they still provide Iraq with limited information on Iranian military activity."

It is unclear precisely how far the Reagan and Bush administrations went in encouraging American companies to supply Iraq directly with potentially lethal military equipment. Commerce Department export control records show that American companies did export

to the Iraqi military procurement ministry and to Iraqi "establishments" now known to have been involved in nuclear or missile research. But export license records refer mainly to equipment in the "dual-use" rather than lethal weapon categories (dual-use equipment includes both high-tech and low-tech equipment that can be used for either civilian or military purposes). Documents obtained by congressional investigators show that American companies supplied the British-based Iraqi front company Matrix-Churchill with tooling systems that the American suppliers knew were being sent to Iraq for use in the manufacture of artillery ammunition. State Department officials responsible for licensing the export of American-made munitions manufacturing equipment said no U.S. companies were granted licenses to ship such equipment to Iraq in the 1980s, given official American neutrality in the Iran-Iraq war. Yet at least one American supplier heavily involved in such trade recently insisted to the program "Dateline NBC" that its dealings with Matrix-Churchill had been thoroughly investigated by U.S. authorities earlier this year and declared proper.

Some military suppliers who may have thought they had Washington's tacit approval to peddle their wares to Saddam have already felt the heat of a U.S. crackdown as the Bush administration hunts for ways to show that its Iraq policy was not totally wrongheaded. Last year officers of a Pennsylvania weapons-design firm called International Signal and Control were indicted in connection with a scheme that involved the illegal export of American artillery technology to Iraq via Chile and South Africa. One of the company's Chilean contacts was a major arms manufacturer called Carlos Cardoen, whose company shipped large amounts of artillery and ammunition to Iraq—most notably the anti-personnel shells known as cluster bombs—and also set up munitions factories in Iraq itself. The Treasury Department recently moved to seize Cardoen's extensive holdings in the United States, and he is now facing a criminal investigation. But he was not always such a pariah. A one-time fund-raiser for Florida Senator Bob Graham, whose mansion in Miami he purchased, Cardoen also once employed as his Washington representative a former U.S. ambassador to Chile who also was a consultant to the CIA. No improprieties were found when this arrangement was investigated by the Senate during Gates's confirmation process, but it is possible to see how Cardoen might have come to believe that his dealings with Iraq had at least a quiet blessing from Washington.

Until a few congressional hotheads and media outlets started paying attention, the Bush administration had mounted an aggressive campaign to control the spin on investigations and disclosures about its pre-Desert Storm dealings with Iraq. Within weeks of the end of U.S. military operations in the Gulf, the NSC's legal adviser, Nicholas Rostow, had convened a committee of officials from the various agencies involved in pre-war Iraq policy to discuss how to respond to potential congressional inquiries. According to the Agricul-

ture Department minutes of one Rostow group meeting last April, attended by White House chief counsel C. Boyden Gray, among the tactics the committee discussed for stalling investigators were: prohibiting them from taking notes on or copying secret documents, shuffling papers among agencies, and combing documents for secrets covered by national security or diplomatic privileges.

Meanwhile, the Commerce Department Inspector General found evidence that potentially embarrassing export licensing records related to Iraq may have been doctored. According to a report the Inspector General provided to a House Government Operations subcommittee headed by Georgia Democrat Doug Barnard, at least sixty-eight export license records related to Iraq were altered. On five license records, for example, descriptions of trucks "were changed ... to eliminate a reference to a design for military use"; references to military applications on other licenses were also deleted by the Commerce Department employees. The Inspector General concluded that the alteration of the truck license records in particular was "unjustified." Culprits were not, however, identified by name, and despite demands by Barnard for a criminal investigation, indictments do not appear to be imminent. Meanwhile, in mid-March Gonzalez released a catalog of administration lies to Congress that had been exposed by the disclosure of the government's secret Iraq archive. According to Gonzalez, the most frequent lie was the claim, by both State and Agriculture Department officials, that foreign policy considerations never influenced agricultural export credit programs.

Although the evidence of Washington's foolishness toward Saddam is manifest, it is still fragmentary. Few, if any, government documents have yet been made public bearing security classifications higher than "secret." In the Texas idiom favored by Bush and Baker, this means it is only the mildly hot stuff. The kind of embarrassing detail that might still be hidden in the foreign policy and intelligence archives—stuff classified "top secret" and with even more arcane security code names like RUFF and ZARF—is only hinted at in the material available to date. But even the rough outline now available makes you wonder how Bush, and Reagan before him, could have pursued such a misguided policy, and stuck with it long after the danger signals had rocketed off the charts. President Bush points to his conduct of Operation Desert Storm as proof of his mastery of international affairs, yet his files demonstrate how he helped to create his own nemesis. For nearly a decade Saddam Hussein played George Bush and his inner circle for suckers, and he rules Iraq today after a war that cost the United States \$7.4 billion. The seeming failure to learn from, or even properly debate, the evidence of failed U.S. policy in Iraq hardly bodes well for the future. The latest word, according to former administration officials, is that Bush hopes to convince the World Bank to offer a major financial aid package to Syrian President Hafez Al-Assad. •

Essay

WILLIAM SAFIRE

Baker's Guilty Knowledge

WASHINGTON

A Foreign Service officer named Frank Lemay ought to be a hero. He was the first to warn his bosses at the State Department that Saddam Hussein was using U.S.-backed grain loans to build a nuclear bomb.

In his memorandum of Oct. 13, 1988, he recounted a conversation with four nervous Department of Agriculture officials who had been briefed on a probe into Iraq's multi-billion dollar abuse of the Lavore bank's Atlanta branch.

"Payments required by Iraq of exporters . . . may have been diverted into acquiring sensitive nuclear technologies," Mr. Lemay wrote to his superiors two and a half years ago. He reported Agriculture's Inspector General to be concerned that "commodities were bartered in Jordan and Turkey for military hardware" and that the U.S. Attorney in Atlanta (a former C.I.A. man) had indicated that diverted funds "were used to procure nuclear related equipment."

But Frank Lemay is a pariah, not a hero, at State because his memo — made public by Representative Henry Gonzalez — proves that State policy makers possessed the guilty knowledge of Saddam Hussein's unlawful use of American financing.

Despite that written notification of likely diversion, Secretary of State Baker leaned on Secretary of Agriculture Clayton Yeutter to extend an additional \$500 million to Saddam Hussein. And despite Yeutter's 1989 pledge to the Senate Agriculture chairman, Patrick Leahy, not to issue new credits until suspicions of corruption were resolved, Secretary

Of Saddam's plot to build a bomb.

Yeutter — under heavy Baker pressure — rushed the "grain" financing to Saddam.

Mr. Lemay is one of the witnesses scheduled to testify this week before the House Judiciary Committee, as it decides whether to request that the Attorney General determine in 30 days if evidence exists of high-level malfeasance requiring a court-appointed independent counsel.

Why is Secretary Baker allowing the young F.S.O. to appear, when the White House has refused to let higher-ups testify? The answer is provided me by a colleague of his at State: "Because Frank is being set up to be discredited by the cover-up crowd at Agriculture, who have already lied to Congress. And because Frank does not know to this day what happened after his memo went upstairs."

What did happen to the Lemay warning at State? Copies went to his boss, Undersecretary for Economic Affairs Richard McCormack, who has left Government, as has then-Counsel Abraham Sofaer; to Sam Hoskinson, who has gone to C.I.A.; to State's "Mr. Iraq," Jack Covey of the Near East Bureau, and to four participants in the meeting at Agriculture.

My mid-level State source believes that McCormack took his assistant's red-hot memo to James Baker and read sections of it aloud. Amazing

result: the economic oversight was taken away from Economic Affairs and assigned to "Baker's man," Robert Zoellick. From that point on, the troublesome Lemay was out of the loop.

What motivated Baker, a lawyer of legendary caution, to ignore the written report of the way our money was being diverted to Saddam's nuclear program?

A better-placed source, who keeps my essays dated 11/30/89 and 3/19/90 in his or her desk drawer, says: "At the time, this was Saddam's only ready source of major cash. And it was the only string we had on him."

String to do what? To become, in President Bush's words, a respected member of the family of nations?

"That's extremely classified. All I can say is we were asked by foreign officials at the highest levels for help on a particular matter. There was a task we wanted Iraq to accomplish and this C.C.C. program was the only way we had to pay for it."

"Our goal," he adds, "was honorable; maybe it was a fool's errand, but it was worth a try."

Who else knows the Bush-Baker motive for knowingly allowing a dictator to divert a half billion dollars in supposed grain credits to military and nuclear use?

My source will say only that the motive was "sufficiently compelling" and the men closest to Baker, then and now, were in on it. But nobody that the Bush Administration is sending to the Judiciary Committee knows the secret motive for corrupting our export program to pay off Saddam Hussein. (1)

WHITE HOUSE KNEW OF POSSIBLE FRAUD

Aide Spoke to U.S. Attorney
About Iraqi Loan in '89 —
Intimidation Is Alleged

By ELAINE SCIOIINO

Special to The New York Times

WASHINGTON, July 7 — A White House official in late 1989 discussed the criminal investigation of an Atlanta bank's loans to Iraq with the Federal prosecutor supervising the case, possibly intervening improperly in the inquiry, the Democratic chairman of the House banking committee said today.

The chairman, Henry B. Gonzalez of Texas, who has been highly critical of the Bush Administration's friendly relations with Iraq before the 1990 invasion of Kuwait, did not identify the White House caller and provided only a fragmentary account of the conversation. But he said it apparently left the prosecutor, Gail McKenzie, an Assistant United States Attorney in Atlanta, with the impression that the White House was concerned that the investigation might cause strains in relations between Washington and Baghdad.

Gerrilyn Brill, the senior Assistant United States Attorney in Atlanta, and acting United States Attorney for the bank investigation, confirmed in a telephone interview today that someone at the White House had called Ms. McKenzie, but denied that the White House had tried to influence the investigation. Ms. Brill did not identify the caller.

The phone call was made as prosecutors in Atlanta were examining allegations that top Iraqi officials had been involved in a multibillion dollar bank fraud in the United States, even as Washington was aggressively courting President Saddam Hussein's Government.

The Embarrassment Level

In 1991, after the Persian Gulf war, the Federal Government charged two former executives of the Atlanta branch of the Banca Nazionale del Lavoro, an Italian bank, with conspiring with Iraqi officials to arrange more than \$4 billion in illegal loans and export credits to Iraq, some of which were used to buy military equipment.

According to Mr. Gonzalez, quoting from notes about the conversation made by a Treasury Department official who was later told about it by Ms. McKenzie, the Atlanta prosecutor "got the impression" that the White House was "concerned about embarrassment level."

Exactly what the embarrassment level concerned, Mr. Gonzalez could not say, but he suggested it reflected concern in Washington that the investigation would hamper relations with

Iraq.

"It is clearly improper for the White House to be calling an Assistant U.S. Attorney to talk about an open criminal case, especially a case as sensitive as the B.N.L. case," Mr. Gonzalez said in a speech on the House floor. "A call from the White House could certainly be perceived as intimidating."

Ms. Brill denied the imputation. "I am aware of a telephone conversation between an individual at the White House and Assistant United States Attorney Gail McKenzie, the line prosecutor handling the B.N.L. matter," Ms. Brill said. "Ms. McKenzie informs me that the caller in no way attempted to interfere with the handling of the case. The caller was simply attempting to seek information that was publicly available. Nothing about that conversation was interpreted by Ms. McKenzie as being an effort to influence the prosecutor's decisions or strategies in the investigation."

Scott Dykema, a spokesman for the Treasury Department, said, "The notes represent hearsay and we suggest it would be unwise to draw any conclusions based on fragmentary hearsay information in the notes."

But the mere suggestion that the White House may have meddled in the case has already bolstered a move by Democrats in Congress to request an independent counsel to investigate whether the Iraq policy was not only a failure, as Mr. Bush and his aides have admitted, but also involved criminal misconduct.

"The documents released today show that the White House could not resist meddling in an investigation of B.N.L.," said Representative Charles E. Schumer, a Brooklyn Democrat, in repeating his call for an independent counsel. "How then can the White House honestly expect the American people to believe that could it won't meddle in an investigation here in Washington that could ultimately focus on people who work in the White House itself?"

C.I.A. Report Revealed

Mr. Gonzalez charged that the telephone call was part of a pattern by the White House to prevent the disclosure of information that would draw attention to the Administration's conciliatory policy toward Iraq before its August 1990 invasion of Kuwait.

Mr. Gonzalez also revealed the existence of a previously undisclosed Central Intelligence Agency report circulated to Administration officials on Nov. 6, 1989, two days before the Bush Administration approved \$500 million in Agriculture Department loan guarantees for Iraq. The report indicated that Banca Nazionale del Lavoro, the primary lender to Iraq under the United States credit program, had paid for Baghdad's weapons programs.

"The report indicates that several of the B.N.L.-financed front companies in the network were secretly procuring technology for Iraq's missile programs and nuclear, biological and chemical weapons programs," Mr. Gonzalez said.

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The Plot Thickens

As 'Iraqgate' Unfolds, New Evidence Raises Questions of Cover-Up

Once-Obscure Bank Scandal Keeps Unwanted Focus On Bush's Saddam Policy

Altered Lending Documents

By JOHN J. PIALKA
And PETER TRIVELL

Staff Reporters of The Wall Street Journal

ATLANTA—When federal agents burst into an obscure Atlanta branch of an Italian bank one day in 1989 and began emptying file cabinets, they opened a Pandora's box for the Bush administration.

The seized documents—showing the Banca Nazionale del Lavoro branch's role in financing Saddam Hussein's war machine—are now a continuing reminder of President Bush's past policy of trying to pacify Iraq by promoting trade, extending credits and liberalizing export licenses. And they even are raising questions of a possible high-level cover-up of the policy's failures.

On the campaign trail, Democratic Vice Presidential candidate Al Gore has been hammering away at what some now dub "Iraqgate." The issue is likely to surface in the presidential debates that begin Sunday, and it is one that could damage Mr. Bush in what is usually thought of as his strong suit, foreign policy.

Unfolding Story

Events in this still-murky affair have been unfolding rapidly. This week, the Central Intelligence Agency conceded that it hadn't previously disclosed all it knew about affairs involving the bank, known as BNL, and launched an inquiry into why it held back files that contradicted the Justice Department's fraud case. Also, Federal Judge Marvin Shoob in Atlanta recused himself from the BNL case, saying he had formed a strong opinion that the probe had been tampered with. Days earlier, Judge Shoob's extended sentencing hearing for the head of BNL's Atlanta branch ended abruptly when the Justice Department agreed to withdraw the single defendant's guilty plea.

Many questions remain, but some things about the affair are clear. For one, the Bush administration had a more-or-less open policy of supporting Saddam Hussein's regime, and clung to this policy despite troubling revelations arising from

the BNL raid as well as warnings (from U.S. government agencies) that trade credits were being used to build up the Iraqi military machine.

In addition, there's mounting evidence that BNL officials in Rome may have used their Atlanta branch as a back-door way to provide further loans to Iraq. This evidence runs contrary to the Justice Department's contention that \$2.1 billion in BNL loans were part of a fraud hatched solely by the Atlanta branch's manager.

Unanswered Questions

But in many ways, what isn't yet known about the affair is more worrisome. Did the U.S. know of, or even condone, BNL lending to Iraq that helped pay for such hardware as the extended-range Scud-B missile that later killed U.S. troops and Israeli citizens during the Gulf War? Did any administration officials push for increased trade credits knowing that the funds were being partly diverted to build up Saddam's war machine? And above all, did any administration officials deliberately hamstring the BNL investigation to protect themselves, or the Italians, from embarrassment?

It is this last point that may hold the most peril for Bush administration officials, because any attempt to interfere with an investigation could involve legal, as opposed to policy, problems. The administration, while conceding the failure of its policy of using economic support to improve Iraq's behavior, declares emphatically that officials never tried to hamper the BNL probe or cover up their support of Baghdad. Nonetheless, evidence presented to Judge Shoob in Atlanta last month led him, at least, to suspect that "prosecutors may have been blocked by agencies with political agendas from developing a full picture of this affair."

Italy's Interests

Memoranda obtained by The Wall Street Journal suggest this was so. In January 1990, federal investigators planned a trip to Rome and Istanbul to try to determine who outside the BNL, Atlanta office knew about or participated in the big loans to Iraq. But the trips evidently were vetoed at a high level, and never were made, according to a Feb. 6, 1990, memo by Ernest Patrikis, counsel of New York Federal Reserve Bank, which was responsible for supervising BNL's U.S. operations. In the memo, Mr. Patrikis noted that "a planned trip to Italy by criminal investigators was put off because BNL asserted concerns regarding the Italian press." He also said, "A trip to Istanbul was put off at the request of Attorney General Richard Thornburgh."

Certainly, the Italian government leaned on U.S. officials to contain any political damage from the BNL affair. The bank is government-owned and to some extent operates as an arm of the state, with political appointees in senior positions. According to documents introduced at the Atlanta court hearing, the Italian ambas-

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sador to the U.S., Kinaddo Petrigiani, met with Mr. Thornburgh at the White House in March 1990 and explained that any move to "incriminate" the bank would be "tantamount to a slap in the face of the Italians." The Italians staged other high level meetings on the BNL matter at the U.S. embassy in Rome.

But would senior administration officials interfere with a case the Justice Department called the "biggest bank fraud case in U.S. history" simply to protect the Italian government from humiliating disclosures?

Through a spokesman, Mr. Thornburgh, now an undersecretary general at the United Nations, says he doesn't remember getting involved with the investigators' travel plans. "I have no recollection of any matter coming to my attention relating to the approval of foreign trips in the BNL investigation," he states. "I was not involved in any of the day-to-day matters in this case, nor is this the type of decision that would normally come to the attention of the attorney general."

As for talks with Mr. Petrigiani, Mr. Thornburgh's spokesman says the then-attorney general saw him at a state dinner at the White House, but "doesn't remember talking to him at any time. He may have said hello to him. If anything did come up, it was just a passing comment."

During the recent sentencing hearings for the Atlanta-BNL chief, the assistant U.S. attorney handling the case, Gail McKenzie, said she had received "at least one phone call" from a White House lawyer inquiring about the BNL probe. Although she said the lawyer asked only a few basic questions about the case, Judge Shoob said she felt the phone call was "highly unusual and inappropriate." Earlier, a Treasury Department official said in a Nov. 7, 1989, note concerning the contact: "McKenzie: She has been called by the White House — got impression concerned about embarrassment level."

For whatever reasons, it seems clear the Justice Department's investigation of BNL and the subsequent indictment missed the mark. The indictment — delivered on Feb. 28, 1991, the day Allied forces ended the ground war against Iraq — hung the entire blame for excessive BNL lending to Iraq on the slender frame of Chris-

topher P. Drogoul, a tall, dark-haired banker who had taken over the BNL Atlanta branch's management in 1984. According to the indictment, he perpetrated fraud against an unknowing BNL management in Rome.

Anyone Else?

But it now seems certain that Mr. Drogoul didn't act alone. Judge Shoob said "classified reports from the CIA conclude, in part, that a number of high-level BNL-Rome officials supported Mr. Drogoul's activities." Meanwhile, for reasons Judge Shoob said he can't fathom, the CIA reports remain classified and can't be entered into the court record.

According to his court testimony, Mr.

Drogoul first got into the business of financing Iraqi trade by issuing low-profit agricultural loans backed by the Agriculture Department's Commodity Credit Corp. By the time he had built up \$600 million of these loans, the Italian government found itself in a dispute with Iraq over some Italian-made warships. The upshot was an edict limiting the BNL branch to \$100 million of the credits.

Mr. Drogoul doctored the branch's loan records to create the appearance of compliance with the loan limits. Credits in excess of the threshold got shoved into what became known as the "gray book."

Justice Department investigators figure that the Iraqis discovered this sleight-of-hand accountancy and used their knowledge to wring unsecured commercial loans out of BNL-Atlanta. Waiving customary terms and charging interest rates as thin as three-sixteenths percentage point over borrowing costs, Mr. Drogoul signed loans of \$200 million, \$300 million, and later \$500 million. On April 8, 1989, Mr. Drogoul signed for a huge \$1.16 billion loan.

There were other peculiarities. An Italian Senate report points to the Atlanta office's use of Morgan Guaranty Trust for its clearing and overnight funding. The report states: "The Atlanta branch, against all regulations and practices, had been authorized from the first to conduct operations through a bank outside its area and outside the BNL system. The anomaly strongly reinforces an interpretation of the affair which points to a premeditated organization of these actions."

Intelligence Types Appear

But three sets of auditors examining BNL — from the state of Georgia, the Federal Reserve and KPMG Peat Marwick — were kept at bay by phony telexes Mr. Drogoul had employees churn out. These made it appear that the loans were based on Iraqi collateral.

According to Mr. Drogoul's court testimony, U.S. intelligence agencies also had an interest in the ballooning Iraqi loans. As the bank's business grew, he said, officials from three companies that appeared to have links to U.S. intelligence agencies called on the bank. "We now started to see people who are in some manner connected with the intelligence services fumbling around our offices for purposes that I totally didn't understand," he testified.

Mr. Drogoul, now a gaunt, weary-eyed man who has lived for the past several months at Atlanta's federal prison, apparently clung to the belief that, someday, the Iraqis would dig him out of the huge financial hole he had created. Jean Ivey, a loan officer at BNL Atlanta, testified that Mr. Drogoul once told her that Iraq was going to do approximately \$6 billion or \$7 billion worth of business with BNL in financing arms deals. He added, she recalled, that "it'll just be done in cash." Impressed, Ms. Ivey, along with another woman in the office, tipped off their superiors.

Meanwhile, agents from Baghdad

...rent funds wringing loans out of RNI. ...also were in Washington prying credits out of the Commodity Credit Corp. and, to a lesser extent, the Export-Import Bank. To generate more pressure, Iraq conscripted U.S. companies, diplomats and politicians to help lobby for trade credits. Perhaps the most persistent corporate lobbyist for such trade credits was General Motors Corp.

Also active in pushing for taxpayer support of expanded Iraqi trade were Bechtel Group Inc., Westinghouse Electric Corp. and Cargill Inc.

Democrats' Role

Although the Republican administration is taking the brunt of the criticism over the ill-fated Iraqi policies, the program was a solidly bipartisan affair. Also involved in the fiasco were Democratic leaders of three committees now criticizing the Bush administration's role. Rep. Jack Brooks, of the House Judiciary Committee, was prodding the Agriculture Department to keep subsidizing the sale of U.S. rice to Iraq. Rep. Charles Rose, head of a House Agriculture subcommittee, was promoting a joint GM-Volvo venture to build a heavy-truck plant in Iraq. And Rep. Lee Hamilton, the likely next chairman of the House Foreign Affairs Committee, wrote the Eximbank in 1988 that giving Iraq medium- and long-term loans "is in the United States national interest."

For Iraq, U.S. government credits were crucial to plans for rebuilding after the war with Iran. Iraq had begun to default on loans from banks, and was in the process of stifling government-backed credit agencies in Germany, Japan, the Soviet Union, France and Australia.

The Bush administration, which saw trade as a lever to influence Saddam Hussein's behavior, was eager to step into the breach. For U.S. corporations and the lawmakers they enlisted to help them, Iraq represented a potential pusher of business. Since Iraq was considered one of the world's least credit-worthy trading partners, taxpayer-backed financing was sought to reduce the risk.

Under heavy pressure from Iraq, Capitol Hill, the White House and U.S. commodity exporters, the Agriculture Department caved in and now faces a potential loss of as much as \$2 billion in defaulting CCC loans allocated to support Iraq. The losses may be partly offset by funds from Iraqi assets frozen at the 1990 invasion of Kuwait.

Altered Documents

In the months following the Gulf War, the administration has been loath to discuss its policy of active support for Saddam Hussein. Nicholas Rostow, special assistant to the president and legal adviser, in an April 1991 memo to White House Counsel C. Boyden Gray and several other government counsels, warned about the mounting congressional requests for information. He wrote that all such requests for documents should be screened to

see if they involve "issues of executive privilege (deliberative process, foreign relations, national security, etc.)." Mr. Rostow added: "Alternatives to providing documents should be explored."

Earlier, a Commerce Department office delivered to a congressional panel altered records involving export licenses it provided for various Iraqi acquisitions. In one case, the Commerce Department office deleted a statement that the end-user of a batch of U.S. trucks "is involved in military matters." In another instance, the office inserted language stating that some equipment would be used in a factory making videotapes for consumer electronics, thus giving the sale a more harmless appearance.

Not everybody in government was drawn into the pro-Iraq program, or faced the same embarrassment when it fell apart. The Eximbank, a relatively obscure independent agency of banking technocrats, believed Iraq was engaged in a sort of "financial blackmail" around the world, says Arthur Pilzer, former vice president of the Eximbank division that handled exports to the Mideast. "They [Iraq officials] were saying to export credit agencies in other countries: 'If you lend us more money, we will pay our old debts. If you don't, we won't.'"

Around Washington, an Eximbank memo notes, Iraq was using "U.S. exporters to lobby for new credit." But Iraq's ability to repay its ballooning loans was questionable. Eximbank said Iraq's debts would grow by \$3 billion to \$8 billion a year, while its expanded oil output could bring in only a further \$1 billion a year.

Fears of Arms Buildup

And Eximbank had other qualms. A June 1989 study it did with help from the Federal Reserve and CIA said Iraq was acquiring Western technology to support its growing military arsenal, despite promises to the contrary. The report said Iraq's ministry of industry and military industrialization was planning to "integrate" U.S.-acquired technology, such as vehicle assembly plants, "directly into Iraq's planned missile, tank, and armored personnel carrier industries."

The Eximbank didn't escape unscathed. Despite limiting Iraq to \$200 million of government insured one-year loans, the bank estimates it lost \$60 million in deals with Baghdad. But "that amount could have gone through the roof," notes Chairman Henry Gonzalez of the House Banking Committee, which began the first major probe of Iraq's efforts. European and Japanese government export credit agencies lost more than \$20 billion.

The Eximbank's warning wasn't the only one the Bush administration ignored in pursuing its policy of aiding Saddam's Iraq. In a secret memo, State Department staffers cautioned Secretary of State James Baker on March 24, 1989, that "Iraq retains its heavy-handed approach to foreign affairs ... and is working hard at chemical and biological weapons and new

missiles." In addition, there were reports that U.S. trade credits were freeing up funds that Iraq was using to build up its military. And the administration had received reports that Iraq had used chemical weapons against the Kurds and continued to support international terrorists.

Baghdad's principal counterweight to these voices of apprehension was Nizar Hamdoun. As Iraq's ambassador to the U.S. in the mid 1980s, he helped stir corporate interest in doing business with Iraq. The articulate, hard faced former Baath Party regular also oversaw Iraqi missile procurement and intelligence operations. Later, as Iraq's undersecretary of state, he visited Washington frequently to push for trade credits. What struck many about him was his salesmanship. "He would come by every couple of months and say to us, 'You realize you're losing a potentially huge market,'" recalls Eximbank's Mr. Pilzer. (Mr. Hamdoun is now at the U.N. for Iraq.)

The White House seems to have bought the Hamdoun pitch. Two months after the FBI raid on BNL-Atlanta, Mr. Bush signed a secret national security directive promoting trade with Iraq. The same month, October 1990, Secretary of State Baker telephoned Agriculture Secretary Clayton Yeutter to push for an increase in agricultural credits for Iraq. Notes on the conversation were provided a congressional panel investigating the Iraqi dealings. According to them, Mr. Baker made it clear that "we want to get this important program back on track quickly." The next month, the Department of Agriculture was persuaded to raise to \$1 billion, from a proposed \$400 million, its guarantees of CCC loans to finance exports to Iraq.

In a letter to the Treasury defending the Agriculture move, Lawrence S. Eagleburger, now acting Secretary of State, said, "Our ability to influence Iraqi behavior in areas from Lebanon to the Middle East peace process to missile proliferation is enhanced by expanded trade."

In January 1990, Congress passed a measure barring the Eximbank from lending to states whose policies and behavior were considered harmful to U.S. interests. Nine nations were on the list. However, President Bush intervened to exempt Iraq.

For its part, the State Department appeared chiefly concerned with keeping Baghdad's approval. In a February 1990 memo to Robert Kimmitt, then undersecretary of state for policy, John H. Kelly, another Mideast specialist, fretted over a possible slowdown in the Agriculture Department's loans to support grain sales. The program "is a key component of the relationship and failure to approve the [loans] will feed Saddam's paranoia and accelerate his swing against us," Mr. Kelly wrote. "We need to move quickly to get this critical program back on track."

But as U.S. loans to Iraq piled up, Saddam Hussein's behavior worsened. In

April 1990, after the Iraqi dictator threatened to burn half of Israel with some unspecified new weapon, the harsh truth sank in. The administration began to rethink its support and managed to suspend \$500 million of the CCC credits.

Milestones in the BNL Story

November 1984 U.S. and Iraq resume diplomatic relations.

Late 1985 Iraq gives Atlanta branch of Italy's Banca Nazionale del Lavoro (BNL) task of handling loans to Iraq backed by U.S. Agriculture Department Commodity Credit Corp.

February 1987 BNL's Atlanta branch begins series of secret commercial loans to Iraq totaling \$2.1 billion.

August 1988 Iran-Iraq war ends. Iraq reportedly uses chemical weapons against Kurds.

March 1989 State Dept. memo warns Baker that Iraq is "working hard" on weapons of mass destruction.

June 1989 U.S. Export-Import Bank warns that exports to Iraq are being used for military purposes.

August 1989 FBI raids BNL-Atlanta.

Oct. 2, 1989 Bush signs secret national security directive advocating U.S. trade with Iraq.

Oct. 26, 1989 State Dept. asks Agriculture Dept. to offer Iraq \$1 billion of government-backed trade credits.

Jan. 17, 1990 Bush waives embargo placed by Congress on Eximbank credits to Iraq.

March 1990 Italian ambassador to U.S. tells State and Justice Dept. officials that prosecution of BNL's Rome headquarters would harm U.S.-Italian relations.

April 1990 Saddam Hussein threatens to "make the fire eat up half of Israel."

April 17, 1990 Treasury Dept. withholds half of \$1 billion commodity trade credits previously earmarked for Iraq.

July 1990 Bush administration opposes congressional move for sanctions against Iraq.

Aug. 2, 1990 Iraq invades Kuwait.

Feb. 28, 1992 U.S. ground war against Iraq ends; Christopher Drogoul, head of BNL's Atlanta branch, is indicted for fraud.

June 2, 1992 Drogoul pleads guilty to 60 charges, including bank fraud, tax evasion and obstruction of justice.

Sept. 14, 1992 Judge opens Drogoul sentencing hearing in Atlanta.

Oct. 1, 1992 Justice Dept. withdraws Drogoul guilty plea after concluding that he almost certainly didn't act alone.

Oct. 7, 1992 CIA launches investigation of its own failure to divulge all it knew about BNL.

Justification of Iraq Aid Called Flawed in '90

By DOUGLAS FRANTZ
and MURRAY WAAS
SPECIAL TO THE TIMES

WASHINGTON—An Agriculture Department report used in recent months by the Bush Administration to defend its prewar assistance to Iraq was known to be flawed and incomplete before it was released in 1990, according to internal documents and interviews.

A senior federal investigator cited the deficiencies when he tried to delay release of the report, which stemmed from an inquiry into allegations that Iraq had misused U.S.-backed loans.

Records show that the official completed the report represented an incomplete and "rosy" picture of Iraq's abuse of the loan program, which included paying bribes to U.S. exporters and possibly trading food for arms. Releasing the report could embarrass the Administration, he warned.

But the Agriculture Department, after pressure from President Bush's national security adviser, released it, saying that the department's internal auditors had uncovered no evidence Iraq had traded goods bought with U.S. loans for weapons and did not suspend its aid to Baghdad.

The Administration's investigation of Iraqi abuses was a white-

Please see IRAQ, A3

IRAQ: Flaws Noted in 1990 Aid Report

Continued from A1

wash at best," said Sen. Patrick J. Leahy (D-Vt.), chairman of the Senate Agriculture Committee, which has been investigating the Iraqi loan guarantees. "At worst, it was an unsuccessful effort to hide a foreign policy failure."

Concerns about the accuracy of the Agriculture Department report came in the wake of recent questions about the thoroughness of a simultaneous criminal investigation into a massive loan scandal involving Iraq and the Italian bank of Italy's Banca Immobile di Lavoro.

The criticism has centered on the apparent failure by U.S. government prosecutors to pursue key evidence and the withholding of intelligence files, possibly to avoid disclosing the extent of Administration aid to Iraq.

The BNL case has become a major issue in the final weeks of the presidential campaign, with Democrats accusing the Administration of a cover-up and Administration officials denying that there was an effort to conceal information.

U.S. Army Gen. William P. Barr has appointed an outside investigator to examine the BNL matter. Dismissed with the appointment, all eight Democrats on the Senate Judiciary Committee asked Barr on Monday for an independent counsel, who would not report to the Justice Department, to investigate the government's handling of the BNL inquiry. The House Judiciary Committee made a similar request Friday.

An Agriculture Department spokeswoman declined to comment Monday on the 1990 Iraqi report or the criticisms of it.

The Agriculture Department inquiry that led to the report was initiated in response to evidence uncovered in the BNL investigation. The two sets of investigations never collided, when they tried to interview the same Iraqi officials.

When FBI agents raided the Italian bank's Atlanta branch in August 1989, they found evidence of \$5 billion in illegal loans to Iraq. Nearly \$2 billion had been guaranteed by the Agriculture Department through its Commodity Credit Corp. to promote U.S. farm exports.

Investigators discovered indications early that food bought with the loans may have been traded by Iraq for military goods. They also uncovered evidence that Iraq had demanded bribes from U.S. exporters participating in the program.

A Agents from the FBI and the Agriculture Department began to examine the office pursued the bank case and internal auditors from Agriculture began to examine the loans.

In early 1990, both teams wanted to interview the same Iraqi government officials, but officials in Washington decided that only one group would be able to interview the Iraqis. The lead agent in the criminal inquiry later testified in court that it was decided that the auditors would interview the Iraqis because both groups believed the Iraqis were lying.

In April 1990, the auditors interviewed Iraqi officials in Baghdad and examined documents indicating possible misuse of the loans. The documents, however, were in Arabic and never were translated.

In late April 1990, the first draft of the audit investigation was written and, in an unusual step, sent to the National Security Council at the White House for review. It also was reviewed by Craig Beauchamp, the assistant inspector general for investigations at the Agriculture Department, who immediately found that the auditors did not thoroughly investigate many allegations about Iraq's abuse of the program.

On May 8, 1990, Beauchamp telephoned Lawrence A. Urgenson, a senior attorney at the Justice Department, who was supervising the criminal investigation of BNL. He told Urgenson

that the report was a "very incomplete picture of Iraq's involvement" in the audit and warned that the Justice and Agriculture departments "could be embarrassed" by its release, according to Beauchamp's notes of the conversation, which were obtained by The Times.

Two days later, Beauchamp again complained to Urgenson, saying the report painted "a rosy picture" of Iraq. He said he had tried to persuade his superiors to delay the report's release.

Urgenson apparently took the warning seriously and responded with a letter to agriculture officials saying that criminal investigators had evidence of Iraqi complicity in criminal abuses of the loan program, including demanding bribes. But the letter did not address whether goods had been traded for weapons.

Urgenson said Iraq was expected to receive another \$500 million in loan guarantees. Beauchamp and others were trying to halt the program, but the White House wanted to keep it open to avoid straining relations with Baghdad, according to documents.

On May 18, 1990, Brent Scowcroft, the President's national security adviser, contacted then-Agriculture Secretary Clayton K. Yeutter and urged him to hold off suspending the loan guarantees, according to internal documents.

Yeutter complied and did not announce the suspension of the program when the audit report was released on May 21. The additional \$500 million was still pending when Iraq invaded Kuwait in August, 1990, according to documents obtained by The Times.

Arthur J. Wade, the lead agent in the criminal case, recently told congressional investigators that additional evidence has been developed indicating that Iraq traded food bought with the guaranteed loans for other goods. The type of goods remains under investigation.

Frantz is a Times staff writer and Waas is a special correspondent.

U.S. Overlooked Iraq's Loan Record

Agriculture Dept. Certification for Guarantees Was Based on False Report

By R. Jeffrey Smith
Washington Post Staff Writer

Shortly before the Bush administration approved \$1 billion in loan guarantees to Iraq three years ago, the Agriculture Department falsely certified that it had no evidence of illegal actions by Iraq in obtaining previous loans, according to a federal investigator.

The evidence of Iraqi wrongdoing was uncovered during a 1989 probe of illicit loans to Iraq by the Atlanta branch of Italy's Banca Nazionale del Lavoro (BNL). It was disclosed to two Agriculture Department officials by Gale McKenzie, the senior prosecutor in the BNL case, on Oct. 11 of that year.

But a summary of McKenzie's findings, prepared four weeks later by the department, inexplicably reported an opposite conclusion that "no [Iraqi] wrongdoing is indicated at this time." The incorrect summary played a key role in persuading senior administration officials to approve the new loan guarantees on Nov. 8, 1989.

Arthur J. Wade, the chief investigator under McKenzie, has called the Agriculture Department's summary wrong and said it was crafted "artificially" and for a "definite purpose," according to a transcript released yesterday of testimony he gave in July to staff members of the Senate Agriculture Committee.

The disclosure of Wade's statement is expected to heighten controversy over the administration's decision to extend the additional guarantees to Iraq at a time of growing

suspicion that past loans were riddled with corruption, including kickbacks and bribes demanded by Iraqi government agencies and questionable consulting fees for Iraqi front companies in the United States.

The decision to go forward was part of a broad U.S. effort to pull Iraq toward the West in the aftermath of the eight-year Iran-Iraq war, a plan strongly promoted within the administration by Secretary of State James A. Baker III. It was initially resisted by the Treasury Department, the Federal Reserve Bank and the Office of Management and Budget, whose representatives warned prophetically that allegations of Iraqi wrongdoing could eventually embarrass the administration in the loan matter.

BNL, as the principal financier of U.S. exports to Iraq, was the chief recipient of the loan guarantees that the Agriculture Department gave to Iraq before 1988. BNL's Atlanta branch was raided in 1989 after two of its employees told the government the branch had made billions of dollars worth of unreported loans to Iraq, including some that were not guaranteed by the government.

Controversy over the U.S. loan guarantees first erupted last summer, when congressional investigators disclosed that a State Department official responsible for monitoring the loan program, Frank LeMay, informed his superiors weeks before the loan guarantees were approved that the BNL probe had produced substantial evidence of Iraqi wrongdoing, including the potential diversion of U.S.-guaranteed funds to purchases of nuclear-related equipment.

LeMay's memo was partly about

his discussions of the BNL case with Kevin Brosch, an Agriculture Department attorney, and Larry McElvain, an official of the department's loan guarantee program. Brosch later told the House banking committee that LeMay's memo was a misleading and exaggerated account of his briefing.

But Wade bolstered LeMay's claim by telling Senate investigators that McKenzie and Ken Golec, another investigator on the case in Atlanta, had informed Brosch about the evidence of Iraqi wrongdoing, prior to Brosch's meeting with LeMay.

"I viewed what I had as evidence," Wade said, according to the Senate transcript of an interview conducted with Golec present. "I cannot imagine saying I had no evidence," Golec added that although he did not then have enough information to indict specific Iraqi officials, "we were definitely beyond the speculation point."

Brosch could not be reached yesterday. But Thomas V. Conway, an associate general counsel at the Agriculture Department, said "in our view, Wade made a number of allegations, but did not have evidence" of Iraqi wrongdoing.

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COMMITTEE

Baker Intervened for Iraq, Documents Show

Extended U.S. Loan Guarantees Were Sought for Baghdad Despite Warnings of Corruption

By R. Jeffrey Smith
Washington Post Staff Writer

Then-Secretary of State James A. Baker III personally intervened to extend U.S. loan guarantees to Iraq three years ago, contravening explicit denials that Iraq was a federal prosecutor that Iraqi officials were implicated in criminal wrongdoing on past loan guarantees, according to government documents.

Baker, who now is White House chief of staff, took the action at a time the State Department was anxious to obtain Iraqi support for a U.S. plan, worked out with Egypt, for a new dialogue between Israelis and Palestinians on peace in the Middle East, the documents indicate.

The prosecutor's warnings included details of "criminal complicity" in the Banca Nazionale del Lavoro (BNL) scandal by Iraqi officials who participated in negotiations with the Bush administration for \$1 billion in loan guarantees, which were granted in November 1989.

The prosecutor, however, did not secure indictment of the Israelis until the end of the Persian Gulf War in February 1991. By then, the United States had released \$500 million of the loan guarantees, which Iraq is now considered unlikely to repay.

The documents, released yesterday by the Senate Agriculture Committee, shed new light on events surrounding the 1989 loan guarantee decision, the most generous of the Bush administration's myriad efforts to curry favor with Iraq

President Saddam Hussein before the Gulf war.

They raise new questions whether Baker's insistence on the loan guarantee program prompted other government officials, including senior officials at the Agriculture Department, to ignore or deliberately misrepresent the prosecutor's warnings of Iraqi wrongdoing.

"That is just another example of how the Bush administration ignored the warning signs in its blind pursuit of closer ties with Saddam Hussein," Senate Agriculture Committee Chairman Patrick J. Leahy (D-Vt.) said.

The documents reveal that Baker responded angrily when the Agriculture Department cited the reports of Iraqi wrongdoing in briefly suspending negotiations on new loan guarantees in October 1989.

At an Oct. 13 meeting, Baker told staff members that was "a step in the wrong direction" and ordered them to "get it back onto the table," according to notes taken at the meeting.

State Department legal adviser Abraham D. Sofaer subsequently dispatched one of his deputies, Michael K. Young, to lobby the Agriculture Department for a reversal of its decision, while then-Deputy Secretary of State Lawrence S. Eagleburger lobbied senior Treasury Department officials who also opposed granting new guarantees.

Undersecretary of State Robert M. Kimmitt also lobbied various officials at Baker's request, according to the documents. On Nov. 9, after an interagency decision to approve the \$1 billion in loan guarantees, Kimmitt told Baker he could "break the good news to Foreign Minister Tariq Aziz since he raised the issue with you, and you pushed to take a personal interest in it."

This decision by the administration reflects the importance we attach to our relationship with Iraq," Baker told Aziz in a confidential telephone call.

"I am looking into the CCC guarantees on an urgent basis and will give you a final response ASAP."

—Baker message to Iraqi foreign minister

ex the same day, Baker added that "it would be useful if you could weigh in with [the Palestinians] and ... urge them to give a positive response to Egypt's suggestions" about Middle East peace.

The memos make clear how unsettling the revelations from the BNL probe were to the officials

charged with keeping the loan guarantee program on track. The investigation of the Italian-owned bank began in late July 1989, when two employees from BNL's Atlanta branch told authorities of a massive, untraceable effort to help Iraq finance billions of dollars' worth of food and arms purchases.

Within two weeks, federal agents raided the Atlanta branch and learned that more than \$1 billion of BNL's illegal loans to Iraq had been guaranteed by the Agriculture Department's Commodity Credit Corp. (CCC). They also discovered that senior Iraqi officials were deeply involved in kickbacks, bribes and other illicit BNL loans that did not involve the CCC.

Gale McKenzie, the chief prosecutor in the BNL case, warned Bush administration officials about these activities. In an April 1992 memo to an assistant U.S. attorney in Atlanta, disclosed previously in the Washington Post, McKenzie complained that her warnings had been "discounted" but she did not then spell out the precise nature of her 1989 warnings.

That information was provided in another memo McKenzie wrote for her files four months ago, which the Agriculture Committee obtained from the Justice Department. It states that two senior Agriculture Department officials, Kevin Brosch and Larry McElvain, were informed on Oct. 11, 1989, of:

■ "Criminal complicity of certain Iraqi government officials, BNL-Atlanta officers and employees ... in a multibillion-dollar scheme to defraud BNL;

■ "Use by Iraqi government officials of non-CCC guaranteed, unsecured ... proceeds to purchase products useful for military purposes, including machines that could, among other things, remove burrs from nose cones of missiles and compress nuclear fuel;

■ Iraqi purchases of more CCC guaranteed commodities than could be reasonably consumed in Iraq, which strongly indicated ... diversion;

■ "[A] requirement of Iraqi government officials that exporters receiving unsecured BNL-Atlanta scheme proceeds make kickbacks to Iraq labeled as 'consulting fees'";

■ "Criminal complicity of certain Iraqi government officials then involved [in negotiations on new U.S. loan guarantees] ... with the intent to use such scheme proceeds for what may be military purposes."

McKenzie said in her memo that this evidence was "accurately reflected" in an Oct. 13, 1989, note to Baker by a State Department economic officer, Frank Leahy. Baker did not get the memo until after he had ordered subordinates to get the loan guarantee program "back onto the table ... ASAP as soon as possible."

McKenzie also said Thomas V. Conway, an associate general counsel of the Agriculture Department, was "advised of many of these issues" by phone on Oct. 5, 1989. The Agriculture Department's reaction was to suspend the negotiations then underway in Washington on new loan guarantees "pending further notification" of the BNL Department officials, according to the documents.

Within five days, however, an official at the Treasury Department—which also opposed new guarantees for Iraq—made the following note after hearing from a State Department economic officer: "Baker putting pressure ... Baker is insisting on being kept informed."

In a message to the Iraqi foreign minister on Oct. 23, Baker assured Aziz that "I am looking into the CCC guarantees on an urgent basis and will give you a final response ASAP."

On Oct. 26, senior State Department officials outlined the rationale for approval of additional loan guarantees in a memo to Baker that cited President Bush's directive to pursue improved economic and political ties with Iraq as a means to promoting stability in the Middle East.

On Oct. 31, Baker telephoned Agriculture Secretary Clayton Yeutter to suggest new safeguards against Iraqi wrongdoing and urged Yeutter to support the new guarantees.

On Nov. 7, a report on the BNL probe prepared by the Agriculture Department for an interagency meeting the following day inescapably concluded that "no [Iraqi] wrongdoing is indicated at this time." This conclusion—at complete odds with McKenzie's warnings—was cited by various officials in the interagency meeting on Nov. 8 that approved the \$1 billion in loan guarantees for Iraq.

According to minutes of the Nov. 8 meeting, a State Department representative who was present did not explicitly cite Baker's desire to obtain Iraq's support for a new Israeli-Palestinian dialogue in pushing for approval of the guarantees, but stated more generally that halting the program would "create difficulties" on a number of matters of importance to the United States. The official mentioned the Middle East peace process, human rights, proliferation of missile and chemical weaponry and "our objectives in the ... Gulf and Lebanon."

... Gulf and Lebanon.

U.S. Ignored Signs in Iraq Case, Government Papers Show

■ **Policy:** Officials kept up aid to Baghdad despite evidence in '89 of its role in bank scheme, records reveal.

By DOUGLAS FRANTZ
and MURRAY WAAS
SPECIAL TO THE TIMES

WASHINGTON — Bush Administration officials ignored emerging evidence of Iraqi government involvement in a massive Atlanta bank scandal in the fall of 1989 and continued providing Baghdad with economic assistance to avoid straining relations, according to newly released government documents.

U.S. officials were aware at the time that evidence pointed to Iraqi complicity in the Banca Nazionale del Lavoro loan scheme and strongly suggested that Iraq swapped American food for arms, according to the records.

But those officials failed to divulge the information to a government committee at

■ FROM SUNDAY EDITIONS

a key moment when it could have curtailed aid to Iraq, the records show.

Taken with other material disclosed in recent months, the new documents provide the most extensive look yet at the battle inside the Administration to salvage the aid program and maintain ties with Baghdad in the face of mounting evidence of Iraqi wrongdoing.

They also demonstrate how far some U.S. officials went to keep the aid program alive and sustain President Bush's ill-fated policy of strengthening ties to Saddam Hussein. And one internal Justice Department document provides the strongest statement to date that Iraq may have obtained weapons for food bought with American loan guarantees.

The documents were released Saturday by the Senate Agriculture Committee, which has been investigating the Agriculture Department's loan guarantees for Iraq.

A State Department spokeswoman declined to comment on the material. Instead, she referred to a letter released last week in which acting Secretary of State Lawrence S. Eagleburger said it has not been proved that Iraq used food bought with U.S. loan guarantees to acquire weapons.

Eagleburger also repeated that the Administration's goal had been to "moderate Iraqi behavior with a mix of limited incentives and strong disincentives."

The records shed new light on a critical period in relations between the United States and Iraq.

Bush had just signed a top-secret order mandating closer ties to Baghdad. Yet some Administration officials were proposing to stop the major American aid program for Iraq, and U.S. intelligence agencies were warning that Iraq was engaged in a worldwide arms-buying effort.

The Administration battle was touched off on Aug. 4, 1989. Federal agents raided the Atlanta branch of Italy's Banca Nazionale del Lavoro and found evidence of \$5 billion in fraudulent loans to Iraq. Nearly \$2 billion of those loans were guaranteed by the Agriculture Department's Commodity Credit Corp., which allowed Iraq to buy American commodities on credit.

The Administration was proposing another \$1 billion in CCC guarantees for Iraq. The Federal Reserve, Treasury Department and Export-Import Bank had reservations because of concerns about Iraq's ability to pay the loans. But the State Department and White House were pushing the package as a foreign policy initiative.

As evidence emerged of Iraqi government involvement in the fraudulent loans at BNL, the Agriculture Department proposed cutting CCC aid to \$400 million. Iraqi Foreign Minister Tariq Aziz told Baker on Oct. 6, 1989, that \$400 million was unacceptable.

According to one of the new documents, two days later, Nizar Hamdoun, a senior Iraqi official, warned U.S. diplomats in Baghdad that Iraq would halt payments on \$2.3 billion in existing CCC-guaranteed loans unless the United States provided the new loan guarantees.

"With his mailed fist still in his velvet glove, Hamdoun then pointed out that Iraq does have alternative sources of supply," the cable recounted.

The stakes were high. On Oct. 11, two Agriculture Department officials, Kevin Brosch and Larry McElvain, were dispatched to Atlanta to find out how much the investigators had uncovered about Iraqi involvement in the BNL fraud. Accounts of the briefing differ.

Frank Lemay, a State Department official, wrote a memo on Oct. 13, 1989, in which he said Brosch had told him the Atlanta investigators had expressed grave concerns about Iraqi involvement in the BNL scheme.

Lemay said Brosch had said Iraqi officials were involved in the BNL scandal and U.S. exporters who refused to pay bribes to Iraq were blacklisted. Brosch also said American goods bought with CCC guarantees might have been traded for arms and some CCC funds might have gone for nuclear weapon technology, according to the memo.

Brosch's information had an immediate impact at the Agriculture Department.

According to a newly released memo to then-Secretary Clayton K. Yeutter, the department suspended all talks with Iraq on new CCC aid on Oct. 12.

When Secretary of State James A. Baker III was told of that plan the next day, he ordered subordinates to "get it back onto the table."

Over the next three weeks, there were many discussions within the Administration about the CCC program and the Atlanta inquiry. They came to a climax on Oct. 31, when Baker phoned Yeutter and persuaded him to restore the \$1 billion.

But the final decision depended on support from an interagency group called the National Advisory Council. With the Federal Reserve and Treasury Department still opposing the aid, Brosch prepared a report on the BNL investigation for the NAC's Nov. 8 meeting.

The report, also released Saturday, said suspicions that CCC-backed grain had been used by Iraq for arms purchases were the result of a clerical error. It played down pressure on U.S. exporters for bribes and did not mention that CCC aid might have bought nuclear technology.

As for Iraqi government involvement, the report concluded, "it does not appear that there is any evidence that has been adduced to indicate Iraqi wrongdoing with respect to the [CCC] program arising out of the BNL affair."

The full \$1 billion was approved, although it was divided into halves. In explaining his vote for the aid, Federal Reserve Gov. Edmund Kelley said at the NAC meeting that the report reassured him "that the investigation had not yet revealed culpability on the part of the Iraqis."

While the report had not been disclosed previously, Brosch was questioned about Lemay's memo last May by the House Banking Committee. He said the Lemay memo was wrong. "Those notes are totally misleading," he said.

Attempts to reach Brosch last week were unsuccessful, but Agriculture officials have said in the past that Lemay misunderstood what Brosch told him.

However, the lead prosecutor in Atlanta responded to Brosch's testimony with a memo of her own on June 16. It supports Lemay's memo and contradicts the critical 1989 report to the NAC, according to a copy released Saturday.

Assistant U.S. Atty. Gale McKenzie wrote that Brosch and McElvain were told Oct. 11, 1989, that investigators had uncovered evidence of "criminal complicity of certain Iraqi government officials" in the BNL scheme and CCC loan abuses. She said they also were told that Iraq had used BNL loans to buy technology with military uses, including specific nuclear goods.

On the question of grain-for-guns, McKenzie said the Agriculture officials were told: "Iraqi purchases of more CCC-guaranteed commodities than could be reasonably consumed in Iraq — strong — indicated barter, transshipment or other diversion."

Four Iraqi government officials were indicted in the Banca Nazionale del Lavoro scandal in February 1991, and it has emerged since that millions of dollars in BNL loans were used for military purposes by Iraq, including improving the Scud missiles that killed 28 American soldiers in the Persian Gulf War.

Prosecutors are still investigating the diversion of CCC commodities. In recent weeks, sources say that phase of the inquiry has focused on possible swaps for tanks and weapons with the former Soviet Union.

Frantz is a Times staff writer and Waas is a special correspondent.

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